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ABSTRACT

This study is one attempt to determine the size and nature of the fiscal reform the Illinois legislature must bring about in order to fulfill the requirements of Article IX, Section 5 of the Illinois Constitution of 1970 that calls for the abolishment of personal property taxes. Chapters discuss the legislative intent of the article and present a simulation of the 1975 fiscal year with property tax adjustments, cost estimates for replacement revenue to units of local government and school districts, alternative tax sources for replacement revenue, alternative methods of allocating the replacement revenue, and a summary of the information gained in pursuit of the study's 23 purposes and recommendations based on those findings. (Author/IRT)

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PERSONAL PROPERTY TAX: THE EFFECTS
OF ITS LOSS ON ILLINOIS SCHOOLS

VOLUME 1

BEST COPY AVAILABLE

by

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M. E. P.

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CHAPTER I

INTRODUCTION

The state of Illinois has not had a statewide property tax since 1932. Governor Henry Horner suspended the state property tax levy during the Depression, leaving the levy and collection of the property tax to local governments. Property taxes, particularly personal property taxes, have been attacked in the past few years as being inequitably assessed and collected. As Joseph Meek, delegate to the Illinois Constitutional Convention of 1970 stated:

This is not a tax system--it is a Pay and Pray System. It is aptly called the Sue and Settle System. It aids the large corporation against the small businessman while tempting both of them to corruption.¹

In the months just preceding the Constitutional Convention of 1970, the Illinois General Assembly had taken steps to relieve the burden of the majority of the

¹Record of Proceedings, Sixth Illinois Constitutional Convention, Committee Proposals, December 8, 1969-September 3, 1970 (Springfield: State of Illinois, 1972), p. 2,131, quoted in Gerhard Casper, "Article IX, Section 5 (c) of the 1970 Illinois Constitution: Legislative Intent," Replacement Revenue Sources (Chicago: Illinois State Chamber of Commerce, 1973), p. A-2.

taxpayers by proposing an amendment to the Illinois Constitution of 1870. This proposed amendment eliminated individual personal property taxes. It was in this political setting that the delegates to the Illinois Constitutional Convention of 1970 wrote Article IX, Section 5, which states:

(c) On or before January 1, 1979, the General Assembly by law shall abolish all ad valorem personal property taxes and concurrently therewith and thereafter shall replace all revenue lost by units of local government and school districts as a result of the abolition of ad valorem personal property taxes subsequent to January 1, 1971. Such revenue shall be replaced by imposing statewide taxes, other than ad valorem taxes on real estate solely on those classes relieved of the burden of paying ad valorem personal property taxes because of the abolition of such taxes subsequent to January 2, 1971. If any taxes imposed for such replacement purposes are taxes on or measured by income, such replacement taxes shall not be considered for the purpose of the limitations of one tax and the ratio of 8 to 5 set forth in Section 3 (a) of this article.²

It seemed the wise and prudent political action in 1970 to delay the abolition of the personal property tax for nine years. Now that time period is almost over and the legislature has made no attempt to deal with the problem of replacing the revenue which will be lost. This study is one attempt to determine the size and nature of the fiscal reform the legislature must bring about in order to fulfill the requirements of Article IX, Section 5

²Illinois, Constitution, art. IX, sec. 5.

of the Illinois Constitution of 1970.

Definition of Terms

The following terms are used in this study as they are defined below.

Adequacy--Sufficient revenue sources available to accomplish the intended purpose of the tax.

Article of Implementation--Article IX, Section 5 of the Illinois Constitution of 1970 (previously quoted).

Central City Districts--Central city districts are:
 . . . those school districts serving the largest city in each of the nine standard metropolitan statistical areas of Illinois as defined by the 1970 census of population and housing.³

Elasticity--The ratio of the percentage increase in tax collections at a constant tax rate to the percentage increase in gross national product.⁴

Equity--The equal treatment of equals.⁵

³G. Alan Hickrod, Ben C. Hubbard, and Thomas Wei-Chi Yang, The 1973 Reform of the Illinois General Purpose Educational Grant-In-Aid: A Description and an Evaluation (Normal: Department of Educational Administration, Illinois State University, 1975), p. 35.

⁴Advisory Commission on Intergovernmental Relations, State-Local Revenue Systems and Educational Finance (Washington, D.C.: Government Printing Office, 1972), pp. 2-17.

⁵James M. Buchanan, Public Finance in Democratic Process (Chapel Hill: The University of North Carolina Press, 1967), p. 294.

Fiscal Neutrality--The level of expenditures in a district should not be a function of local district wealth.

Illinois Constitution--The Constitution of the state of Illinois adopted in 1970.

Impact of Taxation--The taxpayer against whom a tax is levied.

Incidence of Taxation--The taxpayer who finally pays the tax, after any shifting takes place.

Independent City Districts--Independent city districts are, "Those school districts serving a city with a population of 10,000 or more in 1970 but not located within a standard metropolitan statistical area."⁶

Low Growth Suburban School Districts--Those school districts located within a standard metropolitan statistical area, but not located within the central city, which were below the median percentage increase of student enrollment growth for 1964-1973.⁷

Operational Tax Rates--Operational tax rates are:

All taxes used to support funds, except bond and interest; rent; transportation; special education building; . . . capital improvement fund; summer school and vocational building are included in the

⁶Hickrod, Hubbard, and Yang, The 1973 Reform, p. 35.

⁷Ibid.

operational taxes and are used to establish the effort of the district.⁸

Personal Property--Personal property is defined as follows:

Personal property often is referred to as "personalty." Personal property is further divided into "tangible" and "intangible" property. Tangible personal property possesses value in itself because it can be used. Examples of property falling in this class are: automobiles, livestock, furniture, watches, jewelry, machinery, merchandise, grain, etc. Intangible personal property on the other hand is generally spoken of as property that represents a right to value. Stocks, bonds, notes, mortgages, cash, bank deposits, accounts, credits, accrued interest, are the more common intangibles. Good will, patents, franchises, annuities, and royalties are also classed as intangible property.

Certain property that otherwise might be considered real estate under the above rules is declared by law to be personal property. Where this is the case the definition in the law is always decisive.

1. Nursery stock if severed from the land is personal property, classified as merchandise.
2. Gas mains and pipes, laid in roads, streets, or alleys, are assessed as personal property. However, underground concrete conduits constructed by an electric company for its cables and wires and built to conform to a city ordinance requiring underground installation are not tangible personal property for taxation purposes. These are real estate.
3. Water mains laid partly in streets and electric wires attached to poles partly in streets are assessed as personal property, because they are analogous to gas mains.
4. Oil pipe lines are assessed as personal property.

⁸Lee O. Garber and Ben C. Hubbard, Law, Finance, and the Teacher in Illinois (Danville, Illinois: The Interstate Printers and Publishers, Inc., 1975), p. 199.

5. Street car tracks are assessed as personal property. Whatever property right a street railway company may have in strips of public street pavement between or along its tracks, this property is intangible property even though the strips were paved and are maintained by the company.
6. Taxable bridges are assessed as personal property, excepting that taxable interstate toll bridges are assessed as real estate.
7. All property that is not attached to a building or other real estate by screws, nails, etc. is personal property, since not a "permanent" fixture.
8. If property is attached to a building or other real estate by screws, nails, etc., but is owned by a tenant who has an agreement or understanding that he may remove the same at his discretion, it is personal property. (Sword v. Low, 122 Ill. 487.) For example, billboards that may be removed at the discretion of the owner are personal property.
9. Capital stock of domestic corporations is assessed to the corporation as personal property. Stocks of foreign corporations owned by residents of Illinois are assessed as personal property if such corporation does not have tangible personal property assessed in Illinois.
10. Not premium receipts of agents of foreign fire and marine insurance companies are listed as personal property.
11. A franchise granted by any law of this state shall be assessed as personal property.
12. Where a deed for real estate is held for the payment of a sum of money, such sum, so secured, shall be held to be personal property and shall be listed and assessed as credits. A mortgage or trust deed is personal property. A mortgage in process of foreclosure is personal property. A certificate of purchase of premises bought at a master's sale under a decree of foreclosure, subject to the usual right of redemption, is personal property even if the owner of the certificate pays taxes on the real estate.
13. Where real estate is exempt in the hands of the holder of the fee but is contracted to be sold, the amount paid thereon by the purchaser, together with the enhanced value of the investment and improvement thereon until the fee is conveyed, shall be held to be personal property,

and listed and assessed as such in the place where the land is situated.

18. If property does not seem to come within any of the above rules, the intent of the owner of the property controls. Such intent may be determined from (1) the nature of the property, (2) its ownership, (3) its adaptability to its present location, and (4) any lease or agreements pertaining to it (Assessors' Manual).⁹

Personal Property Tax Valuation--A procedure for determining the value of property, defined in the statutes as:

(1) All personal property, except herein otherwise directed, shall be valued at its fair cash value.

(2) Every credit for a sum certain, payable either in money or labor, shall be valued at a fair cash value for the sum so payable; if for any article of property, or for labor or services of any kind, it shall be valued at the current price of such property, labor or service.

(3) Annuities and royalties shall be valued at their present value.

(4) The capital stock of all companies and associations created under the laws of this State, except companies and associations organized for purely manufacturing and mercantile purposes, or for either of such purposes, or for the mining and sale of coal, or for printing, or for the publishing of newspapers, or for the improving and breeding of stock, or for banking or for building and loan purposes, shall be so valued by the Department as to ascertain and determine respectively, the fair cash value of such capital stock, including the franchise, over and above the assessed value of the tangible property of such company or association. Provided, that in all cases where the tangible property or capital stock of any company or association unassessed under this Act, the shares of capital

⁹Illinois Tax Reports (Chicago: Commerce Clearing House, Inc., 1970), p. 2,099.

stock of such company or association shall not be assessed or taxed in this State. This clause shall not apply to the capital stock or shares of capital stock of banks organized under the general banking laws of this State. The provisions of this Section are subject to the provisions of and are modified by Sections 21a-1 through 21a-8 of this Act as amended.¹⁰

Permissible Variance--A reduction in the variation of expenditure per TWADA pupil between school districts within Illinois over time.

Rapid Growth Suburban School Districts--Those school districts located within a standard metropolitan statistical area, but not located within the central city, which were above the median percentage increase of student enrollment growth for 1964-1973.¹¹

Region 1--Region 1 includes McHenry, Lake, Kane, Cook, Du Page, Kendall, Will, Grundy, and Kankakee counties.

Region 2--Region 2 includes Jo Daviess, Stephenson, Winnebago, Boone, Carroll, Ogle, DeKalb, Whiteside, Lee, Rock Island, Mercer, Henry, Bureau, Putnam, Marshall, and LaSalle counties.

Region 3--Region 3 includes Stark, Knox, Warren, Henderson, Hancock, McDonough, Fulton, Peoria, Tazewell, Mason, Schuyler, Adams, Pike, Brown, Cass, Morgan, Scott,

¹⁰Illinois, "Valuation of Personal Property," Illinois Revised Statutes, Chapt. 120, sec. 502.

¹¹Hickrod, Hubbard, and Yang, The 1973 Reform, p. 35.

Sangamon, Menard, and Christian counties.

Region 4--Region 4 includes Woodford, Livingston, Ford, Iroquois, McLean, Logan, DeWitt, Champaign, Vermilion, Macon, Piatt, Douglas, Edgar, Coles, Moultrie, Shelby, Cumberland, and Clark counties.

Region 5--Region 5 includes Calhoun, Greene, Macoupin, Montgomery, Jersey, Madison, Bond, St. Clair, Clinton, Washington, Monroe, Randolph, and Perry counties.

Region 6--Region 6 includes Massac, Pulaski, Alexander, Union, Johnson, Pope, Hardin, Jackson, William-son, Saline, Gallatin, Franklin, Hamilton, White, Jefferson, Wayne, Edwards, Wabash, Marion, Clay, Richland, Lawrence, Fayette, Effingham, Jasper, and Crawford coun-
ties.

Regressivity--The per cent of the taxpayer's income which is taken decreases as that income increases.

Rural School Districts--Those school districts which were neither within a standard metropolitan statis-
tical area, nor were designated as independent cities.¹²

Shifting of Tax Burden--The movement of the tax burden from impact to incidence.

TWADA--TWADA is the abbreviation for Total Weighted Average Daily Attendance (see Appendix B).

¹²Ibid.

Type of School District Organization--Those school districts characterized as either K-12 (usually referred to as unit districts), 9-12 (usually referred to as high school districts), or K-6 (usually referred to as elementary school districts).

Value Added by Manufacture--Value added by manufacture is:

. . . derived by subtracting the total cost of materials (including material, supplies, fuel, electric energy, cost of resales and miscellaneous receipts) from the value of shipments (including resales) and other receipts and adjusting the resulting amount by the net change in finished products and work-in-process inventories between the beginning and the end of the year. Value added avoids the duplication in the value of shipments figure which results from the inclusion of the shipment of establishments producing materials and components along with the shipments producing finished products. It does not exclude purchased business services. . . .13

General Procedures

Archival state aid data for each school district for the 1974-1975 general state aid actual claim was received from the Illinois Office of Education. The actual claim amount, if the formula were fully funded, for each school district was compared to the estimated claim under each of the following situations:

13U.S., Department of Commerce, Bureau of the Census, Census of Manufacturers, vol. 1, Summary and Subject Statistics (Washington, D.C.: U.S. Government Printing Office, 1971), p. 19.

(1) the personal property assessed valuation of the district was removed from the district tax base, (2) the district tax base was adjusted to correspond to an assessment level of 33 and 1/3 per cent of the market value,¹⁴ and (3) the personal property assessed valuation was removed and the tax base was adjusted to 33 and 1/3 per cent of the market value. The comparisons were made to determine the effects of each of these changes in terms of estimated state and local expenditures per Total Weighted Average Daily Attendance (TWADA) pupil on school districts with similar enrollment characteristics, similar organizational type, fiscal neutrality, and permissible variance. School districts were sorted by enrollment characteristics, using a Spearman Rank Order Correlation to determine the magnitude of the change in the rank order of the districts, in terms of equalized assessed valuation per TWADA pupil, under each of the preceding conditions. School districts were then resorted by organizational type, again using the Spearman Rank Order Correlation as a measure of magnitude. Comparisons of the Spearman Rank Order Correlations were made to determine which of the conditions imposed had

¹⁴The assessed valuation of each school district with property valued at 33 and 1/3 per cent of fair market value was calculated from archival records from the Department of Local Government Affairs (see Chapter III).

the greatest effect upon a particular organizational type, or a particular group of districts with similar enrollment characteristics. Effects on permissible variance were measured in each of the cases by the McLoone Index and the coefficient of variation. Effects on fiscal neutrality were measured in each case by the Gini Index and the regression coefficient.

Archival real and personal property equalized assessed valuation data for the years 1946-1974, total taxes locally levied for the years 1946-1973, and educational taxes locally levied for the years 1946-1973 were gathered from the Department of Local Government Affairs. This data was used to project the following: (1) real estate equalized assessed valuation 1975-1979, (2) total taxes locally levied 1974-1979, and (3) educational taxes locally levied 1975-1979. Estimates, based upon the preceding projections, were made of (1) personal property equalized assessed valuation 1975-1979, (2) total taxes locally levied lost 1974-1979, and (3) educational taxes locally levied lost 1975-1979. An alternative projection and estimate was prepared for the total educational taxes locally levied lost 1975-1979. Projections were made using the multiple regression technique for data analysis.

The proceedings of the Illinois Constitutional Convention of 1970 were reviewed to determine the limitations

and intent of the drafters of the constitution, when they wrote Article IX, Section 5. Court cases which were relevant to this section, both the Illinois Supreme Court and United States Supreme Court, were reviewed. Any authoritative journal articles which were relevant to this section were also examined.

The literature was reviewed to determine which alternative taxes were feasible for use in Illinois. The limitations of the Illinois Constitution and philosophical constraints found in classical and modern taxation theory were the criteria used to determine feasibility.

Different revenue allocation methods were developed; these allocation methods centered around two different issues. The problems were replacing revenue lost to all taxing bodies and the unique problem of replacing revenue lost to education in view of the constraints outlined in the Serrano decision.

Delimitations

This study was limited in the projection phase by the calendar years 1946-1979. In the simulation phase, the study covered only the tax year 1973 and the school years 1974-1975. School districts which were formed or ceased to exist between the 1973 tax year and the 1974-1975 school year were dropped from the study. School

districts which had a variation on recorded assessed valuation greater than or equal to 1 per cent, when assessment records on file at the Illinois Office of Education and the Department of Local Government Affairs were compared, were excluded. In the section dealing with enrollment characteristics, only 930 school districts were identified because consolidation had occurred which resulted in new districts that could not be used.

Assumptions

In this time of uncertain economic futures, the past is probably the best predictor of the future. Therefore, it was assumed that over the short run (1975-1979) the assessed valuation of both real and personal property would continue in the upward trends demonstrated from 1946-1974. Further, it was assumed that the total and educational taxes locally levied for 1975-1979 would continue in trends they had demonstrated from 1946-1973.

Education is one product of a child's background which that child will take with it for the rest of its life wherever it goes. Therefore, the kind of education that child received should be the best that is available in the state. Also, no matter where that child lives in the state, that education should be available. In other words, each child is entitled to an equal education, and

that educational opportunity should not be determined by where the child lives.

Some local governments no longer have the tax base to provide all of the services which their constituency requires of them. If the constituency desires these services, they must pay for them through local property taxes, local governments' main revenue source. Local governments would have a larger tax base available to them if the state assumed a greater share of the burden which education places on the local property tax base.

Purposes of the Study

The purposes of the study are as follows:

1. Determine what the writers of the constitution intended in Article IX, Section 5.
2. Determine the effects on local school districts if the personal property tax had been abolished on January 1, 1973.
3. Determine the effects on local school districts if House Bill 990 had been fully implemented on January 1, 1973.
4. Determine the effects on local school districts if the personal property tax had been abolished on January 1, 1973 and House Bill 990 had been fully implemented on January 1, 1973.

5. Determine the effect of the loss of the personal property assessed valuation on the ranking of school districts on the basis of assessed valuation per TWADA pupil for fiscal year (FY) 1975.
6. Determine the effect of House Bill 990 on the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975.
7. Determine the effect of the loss of the personal property assessed valuation and House Bill 990 on the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975.
8. Determine the effect that the loss of the personal property assessed valuation would have on the state contribution to education through the grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.
9. Determine the effect that House Bill 990 would have on the state contribution to education through the grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.
10. Determine the effect that the loss of the personal property assessed valuation and House Bill 990 would have on the state contribution to education through the state grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.

11. Determine the effect that loss of the personal property assessed valuation will have upon school districts in each of the six regions defined by the Illinois Office of Education.

12. Determine the effect that House Bill 990 will have upon school districts in each of the six regions defined by the Illinois Office of Education.

13. Determine the effect that the loss of the personal property assessed valuation and House Bill 990 will have upon school districts in each of the six regions defined by the Illinois Office of Education.

14. Estimate the amount of funds which the constitution says must be replaced to all units of local government and school districts on January 1, 1979, by the state, as a result of the proposed abolition.

15. Determine the limitations imposed upon the legislature by the constitution, with respect to alternative replacement tax sources.

16. Develop alternative tax sources which are consistent with the limitations imposed in the Illinois constitution.

17. Determine what the effect of these alternative taxes would be on the competitive relationship of Illinois businesses in the marketplace.

18. Develop alternative models which will deliver the appropriate amount of revenue to replace the revenue for operations lost to units of local government and school districts.

19. Determine if the present grant-in-aid formulas would be able to be used to replace the revenues lost due to the abolition of the personal property tax, or if they would need legislative modification.

20. Develop alternative models which will replace the revenue lost to the bond and interest fund of the local school district as a result of the abolition of the personal property tax.

21. Develop alternative models to insure that individual school districts will not have their debt limitation reduced as a result of the loss of the assessed valuation from personal property.

22. Develop alternative models which deliver the appropriate amount of collected revenue if the assessed valuation of an individual school district changes after January 1, 1979.

23. Develop proposals for consideration by the General Assembly and its several committees and commissions which are studying this problem and will be affected by the decision.

CHAPTER II

INTENT OF ARTICLE IX, SECTION 5, AS REVEALED IN THE TRANSCRIPT OF THE DEBATES IN THE CONSTITUTIONAL CONVENTION

On August 9, 1970, the Sixth Illinois Constitutional Convention adopted Article IX, Section 5 of the proposed Illinois Constitution of 1970. It was ratified by the people on December 15, 1970, and became effective on July 1, 1971. Its language was clear, but its intent appeared not to be so clear. The purpose of this chapter is to determine, as nearly as possible, the intent of the drafters.

The Committee on Revenue and Finance of the Sixth Constitutional Convention submitted Proposal Number 2, Section 4.2 to the convention on June 16, 1970. It read as follows:

The General Assembly may classify personal property for purposes of taxation, may abolish such taxes on any and all classes thereof, and may authorize the levy of taxes in lieu of the taxation of personal property by valuation.¹

¹Record of Proceedings, Sixth Illinois Constitutional Convention, Committee Proposals, December 8, 1969-September 3, 1970 (Springfield: State of Illinois, 1972), p. 2,129.

As it was submitted, this was the revenue article which dealt with personal property. There were four minority opinions filed with the committee report.

The minority opinions centered around three points. First, the proposal to reinstate the ad valorem personal property tax on individuals which might be, and many felt would be, eliminated on November 3, 1970 by the passage of the proposed amendment to the Constitution of 1870. The committee reported that the power to tax should be reinstated but that the legislature should also have broad and sweeping powers to reform the personal property tax laws. Concern was expressed that the adoption of the proposed amendment would cause litigation over the definition of "individual" which could be eliminated if the legislature had the ability to reform the personal property tax in a manner more consistent with the mandate of the 14th Amendment of the Constitution of the United States. It was stated in the committee report that the legislature would certainly "be conscious of whatever public attitude toward personal property taxation is revealed by the results of the November 3 election."² The dissenters (Delegates Cicero, Downen, S. Johnson, Meek, Mullen, Ozinga, and Scott) felt that this possibility would be so distasteful

²Ibid., p. 2,137.

to the voters that it would threaten the passage of the entire Revenue Article.

The second point was the abolition of the personal property tax. There was concern that there was a need for a personal property tax, but one which was not based upon the ad valorem (value of the item) basis. The tax could be on the basis of dollars per square foot (mobile homes) or dollars per horsepower (aircraft), but it was not to be based upon a method which tried to assess the value of the property. It was charged by the minority that assessment by value is open to "pressures, manipulation, corruption, payoffs, and other injustices."³ It was not the purpose of the dissenters to eliminate the revenue which was being generated, but rather they wanted to change the method of taxing personal property from which the revenue was being generated. This was to be done over a nine-year period for an orderly transition to take place.

The third point was insuring that the revenue lost to the local governments would be replaced. There is no provision in Section 4.2 for the replacement of revenue lost because of the abolition of tax on a class of property. Local governments received approximately 20 per cent of their income from personal property assessments, with

³Ibid., p. 2,140.

some counties receiving 50 per cent of their income from personal property assessments, so there was much concern as to the method of revenue replacement. The minority felt that this was the time to incorporate new sources of revenue, i.e., the income tax, into the shared support of local government. Therefore, in order to eliminate these concerns, the following minority proposal was submitted:

Any ad valorem personal property tax abolished on the date this article takes effect shall not be reinstated or imposed thereafter. On January 1, 1979, the General Assembly shall abolish all ad valorem personal property taxes not previously abolished and shall replace revenue lost to local government units as a result of such abolition by levying or authorizing the levy of taxes other than on an ad valorem basis.⁴

This proposal was submitted by Delegates Downen, S. Johnson, Meek, Mullen, Ozinga, and Scott.

These majority and minority proposals were brought before the convention for consideration on June 19, 1970. The direction of shift of the tax burden was a matter of immediate concern, as the debate shows:

Mr. Zeglis: The next question, Mr. Karns, well, then it is a fact that the removal of any part of the personal property tax will shift over to the real estate if the local government is levying the maximum rate, and all bond issues will now be assessed against real estate only?

Mr. Karns: That's right, yes. In my opinion, in the first instance or in the short run, the

⁴Ibid., p. 2,139.

only place to make up the loss is by a shift to the real estate tax.

Mr. Zeglis: This all shifts to the real estate?

Mr. Karns: That's my opinion. The General Assembly can provide "in lieu of taxes." It sounds fine, but whether they will do so or not, remains to be seen.⁵

On June 25, 1970, Section 4.2 was brought before the convention, seated as a Committee of the Whole. At this time the minority proposal was submitted by the sponsors as an addition to the committee report. Delegate Elward gave rationale for continuing the personal property tax.

It is, in my judgment, a serious mistake--at least at first reading, and I think perhaps throughout the Convention--to take any category of property which could be taxed and eliminate it forever by constitutional mandate.⁶

At this time, Delegate Scott reiterated that the purpose was not to eliminate the personal property tax, only to eliminate the ad valorem method of personal property taxation. He then listed approximately twenty different taxes which could be imposed upon personal property, none of which were based upon the value of the item. Some

⁵Record of Proceedings, Sixth Illinois Constitutional Convention, Verbatim Transcripts, December 8, 1969 to May 21, 1970 (Springfield: State of Illinois, 1972), p. 1,912.

⁶Ibid., p. 2,039.

concern was expressed about the method of taxation that could be used to insure that corporations shared an adequate portion of the tax burden without the use of the personal property tax, as can be seen from the following quotes:

Mr. Tomei: That was to be my next question. Do you think there would be some other way to reach corporations on taxes other than income taxes and other than ad valorem personal property taxes?

Mr. S. Johnson: Yes, I think there are several ways. It depends only upon the imagination of the people who are trying to tax; . . .

Then, the subject of the effect of the decreased assessed valuation upon schools was raised.

Mr. C. Parker: . . . One of the costs of education, as you know, is--to the local community--is the building of school buildings. That is--the money had to be raised by a referendum--a vote of the people. Your bonding capacity depends upon 5 per cent of your assessed valuation. Now according to this proposal, what does this do to that bonding capacity the way we figure it now? How does that work out?

Mr. S. Johnson: . . . I am confident that the Local Government Committee will come out with a proposal that will eliminate that archaic provision, and so that removing personal property--assessed valuation from personal property--in tandem with the removal of tying debt to assessed valuation will have no effect whatsoever on the ability--or should increase the ability--of local governments to issue indebtedness for school buildings.

Mr. C. Parker: Are you saying then that this does definitely--according to this proposal this would

⁷Ibid., p. 2,041.

definitely affect the present base as we now figure it?

Mr. S. Johnson: If we continue to tie debt limit --local debt--to assessed valuation--the 5 per cent debt limit to assessed valuation, yes, it would.

Mr. C. Parker: That's all I really wanted to know.⁸

Later in the day, the subject of bonded indebtedness was approached in a different manner.

Mr. Zeglis: . . . Doesn't this amendment--removal of the personal property tax--in any form automatically shift all existing bond issue expense immediately to the real estate in the state of Illinois?

Mr. S. Johnson: It depends upon what you do in local government, Delegate Zeglis, whether it does that or not.

Mr. Zeglis: . . . When we file our bond levy with the county clerk, we say, "Collect this money from the assessed property in our district." Automatically--the removal of any personal property automatically puts the entire bond issue over on real estate. . . .

In addition to that there are 6,500 taxing bodies in the state of Illinois, many of whom are not levying their maximum rate, that automatically that is made up and shifted over to the real estate. You automatically raise all real estate taxes when you remove any part of the personal property tax in the state of Illinois.⁹

During the debate, Delegate Scott offered some solutions to these problems.

⁸Ibid., p. 2,043.

⁹Ibid., p. 2,060.

Mr. Scott: If I may Mr. President, I would like to add to that a little. Naturally, I would substantiate what Delegate Johnson has said but, number 1, when a school district loses valuation it qualifies for state equalization aid sooner and faster. It throws an earlier load, as far as equalization aid, mainly for the education fund.

One thing that I am thinking of, for example, is that if it [debt] were tied to the present system and increased the 5 per cent, for example, to 6 or 7, and make it for unit districts 12 per cent, which would encourage consolidation further, give local governments, schools, cities, townships, and others the right to issue bonds payable out of nonproperty tax revenues and those bonds so issued would not go against the debt limitation.

There are many, many ways and I am sure that we can satisfy this.¹⁰

Delegate C. Parker continued to ask questions of Delegate Scott. During this series of questions, Delegate C. Parker stated that his real concern was that the state assume more responsibility for the support of education. He pointed out that he was not concerned that the state provide additional funds, but if a shift in the tax burden from local government to state government was forthcoming, the responsibility of the state should be clearly outlined. Delegate Parkhurst informed the group that the proposal of the Local Government Committee would remove the constitutional debt limitation. This would mean that all debt limitation would be statutory and could be altered by the

¹⁰ Ibid., p. 2,043.

legislature to compensate for the lost revenue. Also, the committee would propose that the provision of the Constitution of 1870 be removed which mandated that units of local government could not issue bonds unless they levied a direct tax against real estate to pay for the bonds. He also pointed out that the General Assembly would not have to impose taxes to replace all the revenue which would be lost, since proposed home rule provisions would allow some units of government to generate their own revenue. Delegate Bottino seemed to voice the feelings of many delegates when he said:

. . . unless we write into this constitution something that would mandate the state to take care of more of the cost of education--and I think all of us understand that this is a big burden of local government--that unless we do something of this nature through our constitution, can we have--or assure our people back home that we are truly providing for a shifting of the burden from the local to the state or that we are just providing the means whereby the legislature can do this.

I personally would like to see something written into the constitution that would mandate the legislature to move in the direction we are all speaking of. . . .¹¹

Mr. Elward proposed to alter the language by deleting the words "or not imposed" and "or imposed" from the amendment, and to include the words "or before," so that there would not be a requirement that the action take place simultaneously. Both amendments were accepted by the

¹¹Ibid.

sponsors of the minority proposal. This, except for some changes made by the Style, Drafting, and Submission Committee, was the final version of section 4.1 and 4.2 (a).

There was continuing debate about the shifting of the tax burden.

Mr. Garrison: . . . Do you want to shift a load that is already built into their [corporations] rate base to an income tax that will apply to the collar counties of those people who work in the city of Chicago?¹²

Mr. Davis: . . . there is on the books even today a provision whereby that municipality [Chicago] can levy a utility tax, which, in the final analysis, will fall upon exactly the same people who are paying the personal property tax paid by those corporations today. . . .¹³

Mr. Lennon: . . . but the people that I represent in Cook County can no longer afford to take on additional taxation in the form of real estate tax as they struggle to buy their homes. . . .¹⁴

Mr. Kruppel: . . . They are saying sock the landlord but abolish the tax on the tenant and let the landlord pay the entire burden of education. . . .¹⁵

Mr. Coleman: . . . please tell us what you are going to replace it with and give me some assurance that the people that will have to pay this

¹²Ibid., p. 2,052.

¹³Ibid., p. 2,053.

¹⁴Ibid.

¹⁵Ibid.

are more willing to pay it than they are the personal property. Thank you.¹⁶

Other delegates also expressed concern that the small homeowner would be forced to assume the tax burden relinquished by the corporations.

Two of the officers of the convention expressed concerns of a different nature.

President Witwer (As a delegate): . . . Now, I have the utmost respect for Maurice Scott, and I believe that he is most sincere in his expression that these things will come about and that this replacement money will be found; but I have also observed the Illinois legislature over a good many years . . . what are you going to do if the replacement funds are not voted with the neatness and precision that the arguments in support of this amendment assert will be the case?¹⁷

Vice-President Lyons: . . . Nobody in this room can tell me or tell anybody where that revenue would be replaced in the event that the personal property tax is abolished. Nobody can. Nobody here can mandamus the General Assembly to do anything, and nobody anywhere else can either. The General Assembly cannot be compelled to replace this revenue. It cannot be compelled to pass an appropriation bill. It cannot be compelled to come up with an in lieu--so-called--in lieu taxation system. It cannot be compelled to do anything.¹⁸

In spite of the objections and misgivings on the part of some delegates, sentence two of the minority

¹⁶Ibid., p. 2,054.

¹⁷Ibid., p. 2,052.

¹⁸Ibid., p. 2,060.

proposal was adopted. Delegate Elward introduced an amendment to insert the words "on business and corporations," but this amendment failed.

On June 30, 1970, section 4, now including the minority proposal, was brought before the convention again. This was done for the stated purpose of aligning certain portions of the Revenue Article before they were submitted to the Style, Drafting, and Submission Committee, and before they were brought back for second reading. At this time, Vice-President Lyons introduced the following amendment:

. . . The purport of my motion, Mr. President and ladies and gentlemen, is to strike that portion of the Johnson amendment which has to do with abolition of the personal property tax on corporations by--whatever it is--January 1, 1979.¹⁹

This reinitiated the debate which had occurred earlier in the convention. After long debate the Lyons amendment was defeated, leaving the minority proposal intact. However, a motion to send the proposal to the Style, Drafting, and Submission Committee failed. After the lunch recess Delegate Schuman moved to reconsider the motion to send the proposal to the Style, Drafting, and Submission Committee. It was passed, as was the motion to send the section to the committee.

¹⁹ Ibid., p. 2,138.

When section 4.2 came back to the convention on August 7, 1970 for second reading, there was much disagreement with the language changes proposed by the Style, Drafting, and Submission Committee.

Mrs. Mullen: . . . I think one of the things that the change in language on this abolition does is indicate to the reader of the article that this is an immediate abolition. We did not intend this. This may be what happens, but our intent was that this--through the general classification powers of the General Assembly of personal property tax and their right to abolish, that they could abolish these taxes as they go along. . . . This destroys--it may not really destroy the real effect, but it destroys to the reader that this is a phasing-out proposition. It may not be phased out; it may be immediate; but . . .²⁰

Finally, Delegate Whalen, Chairman of the Style, Drafting, and Submission Committee, recommended that the convention return to the original language. However, he admonished the proponents of section 4.2 that, ". . . it is possible that we have only a mandate in section B rather than an abolition."²¹ So the entire section 4, now section 5, moved through the second reading. Section 5.2 (b) was left in the language of the minority proposal.

On August 8, 1970, Delegate Davis offered the following amendment:

²⁰Ibid., p. 3,759.

²¹Ibid., p. 3,762.

Clerk: Amend . . . section 5, on page 3, by striking all of subsection (b) and inserting, in lieu thereof, the following:

(b) On January 1, 1979, the General Assembly shall abolish all ad valorem taxes levied directly upon personal property, not previously abolished, and shall replace revenue loss to units of local general governments and school districts as a result of such abolition by granting annually to each such unit or district a sum of not less than 20 per cent of the average annual real estate taxes collected by such unit or district in the preceding three years.²²

This immediately sparked new debate:

Mr. Elward: Well, I'm not so sure that's the right approach--I guess we're running the string out here. I wonder what happens, Delegate Davis, if the General Assembly on one of those occasional, once-a-decade fits of irresponsibility, doesn't replace the revenue lost locally?

Mr. Davis: Well, Mr. Elward, it seems to me that where we have tied this together, giving them a mandate to abolish and leaving to the General Assembly the duty to abolish, that if they fail to abolish, or if, having acted to abolish, they fail to make the grant that any rational court--and, of course, we have some that are a bit irrational--but I would think that any rational court would say that the duty was upon them, if they did abolish, to make the grant, and that having failed to make the grant, the abolition would not take place.²³

Mr. Elward: . . . These two items are not tied together, and that's one of the biggest things that's wrong with this amendment. . . .

The abolition, which I can assure you . . . will go through in five days flat, . . . but there'll be a little delay--maybe just a decade

²²Ibid., p. 3,822.

²³Ibid., p. 3,823.

or two--about replacing the revenue lost.

. . . Now, assuming you have constantly rising real estate taxes, as has, I think, been the case in this state throughout the state over the last several years, you are not really talking about 20 per cent replacement, because you are talking about an average which is going to have different figures comprising the base, and you are, therefore, not going to be replacing, say, in 1980, as much money as the personal property tax would have brought in, because in 1980, where it might have brought in 20 per cent of your total, you will be using 20 per cent of three lower figures, and you will, therefore, not produce 20 per cent of the 1980 total tax bill.²⁴

After more discussion as to the proper wording to assure that the abolition and revenue replacement were unmis-
takenly tied together, and to further assure that the full
burden of the tax would not be passed to the real estate
owner, a number of wording changes were suggested.

Finally, a recess was called, and Mr. Davis and Mrs. Leahy
made wording changes in the proposed amendment. After the
recess, the amendment was submitted as follows:

On or before January 1, 1979, the General
Assembly shall abolish all ad valorem taxes levied
upon personal property not previously abolished,
and shall concurrently therewith, replace revenue
lost to units of local government and school dis-
tricts as a result of such abolition.²⁵

After the change in language, there were many questions.

Mr. Nudelman: . . . As I read the revised draft,
I don't see any indication that the General

²⁴Ibid.

²⁵Ibid., p. 3,827.

Assembly will be required to continue making such payments from year to year. Is that implied in here some place?

Mr. Davis: It is intended to be implied by the language which requires them to replace revenue lost.²⁶

Mr. Nudelman: What--what--what protection do the local government units have for the continuing historic inflationary spiral that this country has gone through since its inception, so that in ten or twenty years from the date, January 1, 1979, or any other date, the dollar will be worth substantially less? What protection does the local government unit have against that?

Mr. Davis: Mr. Nudelman, I don't know that any of us--Local Government or otherwise--have any protection. . . .²⁷

Mr. Nudelman questioned Mr. Davis at length. During the questioning, Mr. Nudelman proposed that the only protection against inflation would be the continuation of the personal property tax. Mr. Lewis suggested the addition of "and thereafter" to insure that the General Assembly understood that this was a continuing responsibility. The debate continued with much concern about the shifting of the tax burden to the homeowner. Mr. Thompson suggested an amendment, after a question:

Mr. Thompson: . . . In your opinion, sir, if the General Assembly did--took no action whatsoever by the date, and I refused to pay my personal property tax bill and were taken to

²⁶Ibid.

²⁷Ibid., p. 3,828.

court, what do you feel the outcome of that suit would be, assuming it reached the supreme court of the state of Illinois?

Mr. Davis: . . . It's well established law that if you mandate the legislature to do something and it doesn't do it, you can't go into court and get mandatory injunction requiring them to do it. Now, there has been some breakdown in that philosophy in the one man-one vote decisions of the United States Supreme Court, but they are based on an entirely different situation than this.

I think the answer is, if they fail to abolish personal property taxes when they are required to do so, you'd better go on paying your personal property taxes unless you want to pay a penalty.²⁸

Mr. Thompson then proposed that some change be made in the wording to forbid the transfer of the replacement revenue to real estate. Mr. Davis suggested that a possible amendment might read, "replacement of revenue shall not be provided by any revenue from ad valorem taxation of real estate."²⁹ The amended language was adopted. Mr. Gertz recommended the addition of the word "all" before revenue; it was accepted as an editorial change.

Mrs. Leahy pointed out one weakness of the amendment:

. . . Supposing a school district is receiving \$20,000 in state aid in 1978. Could the General Assembly cut out that grant of aid and then supposing the school district lost \$20,000 through

²⁸Ibid., p. 3,831.

²⁹Ibid.

this abolition and then, you know, grant--make up that grant, the previous year having withdrawn their present type of aid? Do you see what I mean?

Mr. Davis: Yes, I do, and, Mrs. Leahy, as far as I know there is absolutely no way to prevent the legislature from withdrawing all grants of state aid to the common schools. There's no way that we could force them to do it, if they fail to do it, and I suppose they could substitute here, under the subterfuge they were replacing revenue; but the history of the state support of the public schools leads me to think that they do not wish to destroy any public school, which would be the inevitable result of what you're suggesting.³⁰

After some discussion on bond revenue, Delegate McCracken proposed the following amendment:

Mr. McCracken: . . . The following--the period be stricken on the Davis amendment and these words would be added: "solely out of the proceeds of a statewide tax imposed only for that purpose, exclusively against corporations."

That phrasing is not very good; I suppose I should have said "a statewide tax imposed exclusively against corporations, solely for that purpose." That would be more grammatical.³¹

Mr. McCracken stated the reason for his amendment:

. . . Now, if those who are proposing that the personal property tax be abolished are sincere in that they do not really have an unstated motive to favor corporations, they should gladly accept this amendment. . . .³²

Further, Mr. McCracken explained how he intended this to occur:

³⁰Ibid., p. 3,832.

³¹Ibid., p. 3,833.

³²Ibid.

. . . I would envision what we might call a surtax. . . . I would think that it probably would be a tax superimposed upon the income tax. . . .³³

During the debate, it was clarified that the only money to be replaced to local governments was that actual revenue lost through the abolition of the personal property tax. Again, it was suggested that a reasonable manner of establishing this figure might be a moving average of the three prior years. However, at the end of the debate on the amendment, Mr. McCracken did make a change in his presentation on the method of taxation:

. . . Please do not picture any particular type of tax being imposed. Please do not accept my suggestion that we add an extra line on the corporate income tax return in order to find this. I don't have any idea what the legislature will decide. I am only suggesting that as one possibility that occurs to me. Perhaps it will be a franchise tax that the legislature will decide upon. Perhaps it will be some other type of tax. I don't know.³⁴

³³Ibid., p. 3,834.

³⁴Ibid., p. 3,837.

The amendment, as follows, was voted upon and adopted.

- (b) On or before January 1, 1979, the General Assembly shall abolish all ad valorem taxes levied upon personal property not previously abolished, and concurrently therewith and thereafter replace all revenue lost to units of local governments and school districts as a result of such abolition, solely out of the proceeds of a statewide tax imposed exclusively against corporations and levied solely for that purpose. Replacement of revenue shall not be provided by any revenue derived from ad valorem taxation of real estate.³⁵

On August 9, 1970, after submission to the Style, Drafting, and Submission Committee, and after consultation with Mr. Connor, Mr. Brannen, Mr. Weisberg, and Mr. McCracken, the following section 5 (b) and (c) with agreed-upon language was proposed:

- (b) Any ad valorem personal property tax abolished on or before the date this Constitution takes effect shall not be reinstated thereafter.
- (c) On or before January 1, 1979, the General Assembly shall abolish all ad valorem personal property taxes and concurrently therewith and thereafter shall replace all revenue lost by units of local government and school districts as a result of the abolition of ad valorem personal property taxes subsequent to January 2, 1971, by imposing statewide taxes on the class or classes of persons relieved of the burden of such ad valorem taxes. If any statewide taxes imposed solely for such replacement purposes are taxes on or measured by income, such replacement taxes shall not be considered for purposes of the limitation of one tax and the ratio of 8 to 5 described in Section 3 (a). Such replacement of lost revenues shall not be

³⁵Ibid., p. 3,838.

provided by the levy of ad valorem taxes on real estate.³⁶

After a few editorial changes were made, there was some brief discussion:

Mr. Knuppel: . . . you say that if this tax is abolished it will be raised by imposing state-wide taxes on the same class or classes relieved of the burden of such ad valorem tax. Now, in fact, let's suppose you were taxing barbers, for example, and all of a sudden there weren't barbers anymore. Does this mean you can't move? In other words, by putting "class or classes," if you raise so much by farmers, does that mean that the farmer is going to have to raise the same amount, regardless of the fact they decline in number?

Mr. McCracken: . . . Let me say that the answer to your question is no, but it's going to have to be determined by the legislature. It's not a categorical "no" on my part. I would just anticipate that the legislature would use reason.

But let me point out something else. . . . In 1979, each district is going to get reimbursed "X" dollars, because that's what the district raised in personal property tax in 1978. Suppose we continue to have inflation. . . .³⁷

After a little more debate, it was clarified that the intent of the amendment was to talk of large categories of industry and business and not of individual occupations.

³⁶ Record of Proceedings, Sixth Illinois Constitutional Convention, Daily Journals, December 8, 1969-September 3, 1970 (Springfield: State of Illinois, 1972), p. 577.

³⁷ Proceedings, Verbatim Transcript, p. 3,889.

Without further debate, the amendment was adopted.

Issues of Interpretation

Examination of the transcript reveals that there was debate over the definition of "individual," as defined in the Senate Joint Resolution 30 (1969) and the clarifying resolution Senate Joint Resolution 67 (1970), which stated:

Resolved, by the Senate of the Seventy-sixth General Assembly of the State of Illinois, the House of Representatives concurring herein, that, in adopting Senate Joint Resolution No. 30, which submits to the electors of this State a constitutional amendment prohibiting the taxation of personal property by valuation as to individuals, it was the intention of this General Assembly to abolish the ad valorem taxation of personal property owned by a natural person or by two or more natural persons, and that, by the use of the phrase "as to individuals," this General Assembly intended to mean a natural person, or two or more natural persons as joint tenants or tenants in common.³⁸

The Supreme Court of the United States has since ruled on this issue in *Lienhausen vs. Lake Shore Auto Parts Co.*, which accepted the clarification of individual as was printed on the ballot:

The amendment would abolish the personal property tax by valuation levied against individuals. It would not affect the same tax

³⁸ Illinois General Assembly, Senate, Senate Joint Resolution No. 67, 76th General Assembly, May 26, 1970, Journal of the Senate of the Seventy-Sixth General Assembly of the State of Illinois, p. 5,026.

levied against corporations and other entities not considered in the law to be individuals. The amendment would achieve this result by adding a new article to the Constitution of 1870, Article IX-A, thus setting aside existing provisions of Article IX, Section 1, that require the taxation by valuation of all forms of property, real and personal or other, owned by individuals or corporation.³⁹

Upon remand from the United States Supreme Court, the Illinois Supreme Court issued the following supplemental opinion defining individuals:

The constitutional provision barring the imposition of ad valorem personal property taxes on individuals and the U.S. Supreme Court decision (§ 200-650) upholding that exemption permit the imposition of the tax on personalty owned by: partnerships, limited partnerships, professional associations, professional service corporations, and fiduciaries. This court originally ruled (§ 200-603) that only natural persons holding property as individuals, as tenants-in-common or as joint tenants were exempt. It was on this basis that the U.S. Supreme Court upheld the exemption. In the case of bank shares, they are exempt, as are other shares of corporate stock, only if they are owned by a natural person or persons.⁴⁰

However, there are many other issues which are still unresolved as indicated below.

³⁹Lienhausen v. Lake Shore Auto Parts Co., 410 U.S. 356 (1973).

⁴⁰Illinois Tax Reports (Chicago: Commerce Clearing House, Inc., 1974), p. 10,158.

1. Will the ad valorem personal property tax be abolished as of January 1, 1979?

It is important to note that the drafters of the constitution did not directly abolish the ad valorem personal property tax. Instead, the General Assembly was given a mandate to abolish the ad valorem method of personal property taxation on or before a certain date. As Delegates Witwer, Lyons, Elward, and Davis all noted, there is a well-defined body of law which holds that the courts may not mandate the legislature to do something that the legislature fails to do. Cases which have resulted in the legislature being directed to reapportion itself, by the courts, have weakened this construct somewhat. It appears that there is no direct abolition of the personal property tax in the constitution. The first section of the first sentence in section 5 (c) does not constitute an abolition, but a mandate. This mandate is a nonself-executing demand, but it is instead a continuing mandate for the legislature.⁴¹ That is, the mandate will stand until some legislature chooses to accept the challenge of the mandate.

⁴¹Malcolm S. Kamin, "Constitutional Abolition of Ad Valorem Personal Property Taxes: A Looking-Glass Book," Illinois Bar Journal 60 (February 1972):446.

2. Can the General Assembly abolish the tax and not replace the revenue?

The drafters of the constitution did not intend for this to be the case.⁴² The debate between Mr. Elward and Mr. Davis indicates that this was clearly considered as a possibility.⁴³ The Illinois State Supreme Court in 1973 in *Elk Grove Engineering v. Korzen* determined that this was not a possibility, in the Court's opinion. The Court said:

. . . the General Assembly cannot abolish ad valorem personal property taxes which relieve a class of taxpayers of the burden of the tax without imposing replacement taxes in accordance with the provisions of section 5 (c).⁴⁴

3. How will the revenue be replaced?

The drafters were careful not to stipulate any method which must be used, but they attempted to allow the General Assembly as much latitude as possible. The only limitations were that the tax revenue generated by the replacement tax should be sufficient to replace the revenue lost, the tax should not be an ad valorem tax on real estate, the tax should not burden individuals not

⁴²Proceedings, Committee Proposals, p. 2,139.

⁴³Proceedings, Verbatim Transcripts, p. 3,823.

⁴⁴*Elk Grove Engineering v. Korzen*, 304 N.E. 2d 65 (1973), p. 72.

presently paying the tax, and the tax should be statewide in nature.⁴⁵ Delegate McCracken stipulated one tax which might serve as a replacement tax, but he quickly retracted his statements in that area.

4. How much revenue will be replaced?

The limitation in the constitution is "all revenue lost." This amount could be determined by a number of different methods. One method might be the amount extended, another the amount collected, and still another factor could be the time period. At one point in the debate, there was a proposal that the amount be determined as the amount collected over the past three years, but this method was never agreed upon. So, this remains at the discretion of the legislature.

5. When may this abolition take place?

The constitutional mandate says, "on or before January 1, 1979." There was some discussion that suggests that this was to be a phased transition but that was not to preclude the possibility of an absolute transition if necessary.

6. How must the money be replaced to the units of local government and school districts?

⁴⁵Kamin, "Constitutional Abolition," p. 447.

The constitution does not say. It does not indicate if the money must be replaced to the exact same unit which lost the revenue, or if it may be replaced to the same type of unit in the state.

7. Must the tax be collected at the state level?

Again, the constitution does not say. It says only that the taxes must be "statewide taxes." There is no prohibition of a tax being authorized by the state government as a replacement tax, but being levied, collected, and distributed at the local level. Or, the tax could be levied, collected, and distributed at the state level. Or there could be some combination of the previous alternatives. Further, there is no stipulation that the tax have a statewide rate. That would mean that the rate could vary between taxing districts as long as the revenue generated was adequate.

8. What is the relation between section 5 (a) and 5 (c)?

The fact that the broad general powers of the legislature in section 5 (a) have been limited by section 5 (c) seems clear. If this were not the case, then the Illinois Supreme Court decision in Elk Grove

v. Korzen probably would not have been delivered as it
was.⁴⁶

⁴⁶Elk Grove Engineering v. Korzen.

CHAPTER III
SIMULATION OF THE 1975 FISCAL YEAR
WITH PROPERTY TAX ADJUSTMENTS

The Illinois Constitution of 1970 was drafted while the Strayer-Haig grant-in-aid formula was the formula which the legislature had adopted to distribute monies to public (K-12) education. The Strayer-Haig formula was a foundation level formula which attempted to provide some basic level of educational services to each child in the state. This formula had two basic flaws:

1. The foundation level had to be changed by the legislature. The end result of this was that the foundation level seriously lagged behind the statewide average costs of education.
2. There was no reward for local effort. School districts with low assessed valuation per pupil might have to tax the population at a rate twice as high as a neighboring district and still not be able to provide equivalent educational services. The Strayer-Haig formula did not provide "equal expenditure for equal effort." These two flaws seriously weakened the ability of the formula to provide equal educational opportunity for each student in the state.

In 1971, the Serrano case in California created serious doubts in the minds of many experts in the area of school finance, and in the minds of many legislators, as to the adequacy of a Strayer-Haig formula in states where there was a wide variance in assessed valuation per pupil. The Illinois General Assembly, in order to avoid having the Illinois method of distributing aid to public schools declared unconstitutional, as had happened in California and New Jersey, amended the law to add another option to the grant-in-aid formula. The new formula, known as the "Resource Equalizer," was based upon the principles of fiscal neutrality and permissible variance. Fiscal neutrality was defined in Chapter I as: "The level of expenditures in a district should not be a function of local district wealth." Permissible variance is defined as: "... a narrowing of the variation in the levels of expenditure per pupil between districts within a state with the passage of time."¹ Hereafter in this study it is assumed that by its actions in 1973, the General Assembly intended the state to move toward fiscal neutrality and to achieve a narrowing of the variance in expenditure per

¹G. Alan Hickrod, Ben C. Hubbard, and Thomas Wei-Chi Yang, The 1973 Reform of the Illinois General Purpose Educational Grant-In-Aid: A Description and an Evaluation (Normal: Department of Educational Administration, Illinois State University, 1975), p. 21.

pupil between districts.

This formula rewarded local districts for attempting to provide a level of educational services contingent upon the effort exerted (tax rate), and also rewarded school districts with low assessed valuations to a greater degree than it did school districts with high assessed valuations. Since this formula guaranteed each district in the state a fixed equalized assessed valuation, and each pupil count in the state an education equal to \$1,260 per year (provided the district levied the maximum allowable tax rate) the result should be a decrease in the variation of the expenditure per child in the state. This was particularly true since the law mandated that each unit school district which had an operating tax rate in excess of three dollars would roll that tax rate back to three dollars; equivalent rates were specified for dual districts with exceptions for high expenditure districts. Since the new grant-in-aid formula is based upon these concepts, and since 98 per cent of the general state aid dollars were distributed through this formula (FY 1976),² it becomes important to determine what the effects of the

²Illinois, The State Board of Education, Illinois Office of Education, State, Local and Federal Financing for Public Schools 1975-1976, Circular Series A, Number 349 (Springfield: Illinois Office of Education, 1975), p. 7.

removal of the personal property equalized assessed valuation would have on the concepts of fiscal neutrality and permissible variance. It also becomes important to know what the actual variation in expenditures will be in terms of dollars available to the school districts.

To further complicate this evaluation, a change occurred in the assessment ratio of property. Prior to 1975 all property, both real and personal, was supposed to be assessed at 50 per cent of market value. In the fall of 1975 Governor Dan Walker signed into law House Bill 990, which reduced this assessment ratio to 33 and 1/3 per cent of market value. Since some counties were assessing at levels below 33 and 1/3 per cent, these counties were to raise their assessment levels to 33 and 1/3 per cent in three equal installments in the next three years. This would mean there would be two factors operating simultaneously: fiscal neutrality as related to effort, and permissible variance.

With these problems in mind, the following purposes are presented as they were enumerated in Chapter I and numbered 2 through 13:

2. Determine the effects on local school districts if the personal property tax had been abolished

on January 1, 1973.

3. Determine the effects on local school districts if House Bill 990 had been fully implemented on January 1, 1973.

4. Determine the effects on local school districts if the personal property tax had been abolished on January 1, 1973 and House Bill 990 had been fully implemented on January 1, 1973.

5. Determine the effect of the loss of the personal property assessed valuation on the ranking of school districts on the basis of assessed valuation per Total Weighted Average Daily Attendance (TWADA) for fiscal year (FY) 1975.

6. Determine the effect of House Bill 990 on the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975.

7. Determine the effect of the loss of the personal property assessed valuation and House Bill 990 on the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975.

8. Determine the effect that the loss of the personal property assessed valuation would have on the state contribution to education through the grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.

9. Determine the effect that House Bill 990 would have on the state contribution to education through the grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.
10. Determine the effect that the loss of the personal property assessed valuation and House Bill 990 would have on the state contribution to education through the state grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.
11. Determine the effect that loss of the personal property assessed valuation will have upon school districts in each of the six regions, defined by the Illinois Office of Education.
12. Determine the effect that House Bill 990 will have upon school districts in each of the six regions, defined by the Illinois Office of Education.
13. Determine the effect that the loss of the personal property assessed valuation and House Bill 990 will have upon school districts in each of the six regions, defined by the Illinois Office of Education.

Data Sources

The same basic data were utilized throughout each of the simulations. Data for the annual state aid claim for 1974-1975 school year (FY 1975) was found in Annual

State Aid Claim Statistics, Illinois Public Schools 1975-1976; information on the personal property assessed valuation was found in Illinois Property Tax Statistics 1973; data relating to the county weighted median ratios came from Assessment/Sales Ratio Study Findings; and material relating to the county multipliers was obtained from a memorandum issued by the Office of Financial Affairs of Illinois.³

Assumptions

Before the data could be analyzed, some assumptions had to be made. First, it was assumed that all townships in the county had assessment ratios equal to the county weighted median ratio. Second, it was assumed that all individual personal property had been removed from the tax rolls in compliance with the United States Supreme Court

³Illinois, The State Board of Education, Illinois Office of Education, Annual State Aid Claim Statistics, Illinois Public Schools 1975-1976, Circular Series A, Number 348 (Springfield: Illinois Office of Education, 1975); Illinois, Department of Local Government Affairs, Office of Financial Affairs, Illinois Property Tax Statistics 1973 (Springfield: Department of Local Government Affairs, 1975), Table X, pp. 106-61; Illinois, Department of Local Government Affairs, Office of Financial Affairs, Assessment/Sales Ratio Study Findings 1973, Property Tax Series (Springfield: Department of Local Government Affairs, 1975), Table II, p. 36; Department of Local Government Affairs, Office of Financial Affairs, "Equalization Factors in Effect for Assessment Year, 1973," Springfield, Illinois, July 23, 1974. (Typewritten.)

decision in Lienhausen v. Lake Shore Auto Parts Co. Third, it was assumed that all taxes extended were collected. Fourth, it was assumed that there were no accounting adjustments to be made to the annual state aid claims as recomputed. These assumptions had to be made in order to make the predictions despite the fact that there will be cases where each of them will not have occurred.

Analysis of the Data

Four different statistical techniques were used to evaluate the effects of the changes in equalized assessed valuations on the state grant-in-aid formula in terms of the goals of permissible variance and fiscal neutrality. The Gini Index and the regression coefficient were used to measure changes in fiscal neutrality; the McLoone Index and the coefficient of variation were used to measure the changes in permissible variance. These tests were calculated after each of the four simulations. Also, the districts were rank ordered on the basis of equalized assessed valuation per concentrated TWADA⁴ after each simulation, using a Spearman Rank Order Correlation to determine the magnitude of the rank order changes. Then the correlations were compared to determine which of the

⁴For a definition of concentrated TWADA, see Appendix B.

simulations had the greatest effect.

Specifically, the procedure used was this. First, the annual state aid claim for FY 1975 (school year 1974-1975) was recomputed after the two 25 per cent limitations on the maximum increase in the claim amount for one year were removed from the calculation formula for each district which used the resource equalizer method of reimbursement. Claims for districts which used the Strayer-Haig method of calculation were recomputed after the 25 per cent limitations on the maximum increase in the claim amount for one year were removed from the calculation formula for each district which used the resource equalizer method of reimbursement. Claims for districts which used the Strayer-Haig method of calculation were recomputed after the 25 per cent limitation on claim increase was removed. Next, the amount of local contribution was determined by multiplying the equalized assessed valuation times the operating tax rate. These two amounts for each district were summed and divided by the concentrated TWADA. The coefficient of variation was then computed. The coefficient of variation was used to provide a measure of variation over the entire distribution. The McLoone Index only provides a measure of variation over the bottom half of the distribution. The coefficient of variation was calculated by dividing the standard deviation by the mean

and then multiplying by 100.

The McLoone Index is computed by determining the number of dollars that would be required to raise all units (in this case school districts) below the median expenditure per concentrated TWADA pupil to the median. This dollar value was added to the dollars actually generated in those districts below the median. This value was divided into the actual dollars generated by those districts below the median, i.e.:

$$I = \frac{\text{actual dollars below the median}}{\text{dollars needed to raise expenditures to the median} + \text{actual dollars below the median}}$$

The larger the fraction the less variation there was in terms of permissible variance.⁵ After the McLoone Index and the coefficient of variation were calculated, the districts were ranked on the basis of equalized assessed valuation per concentrated TWADA pupil. Using this as a measure of wealth and the expenditure per concentrated TWADA pupil as a measure of expenditure allowed for the calculation of the Gini Index.

⁵Hickrod, Hubbard, and Yang, 1973 Fiscal Reform, p. 32.

The Gini Index was computed to determine if the expenditures were proportionate to the assessed valuation per pupil. That is, if the poorest 25 per cent of the students in the state, based upon equalized assessed valuation per concentrated TWADA pupil, had 25 per cent of the total revenue in the state--both state and locally generated--expended upon them, then education expenditures were not determined by the wealth of the local district. (For calculation of the Gini Index see Appendix C.) Hence fiscal neutrality was achieved. Revenue from federal sources was not included in these calculations. This left only the regression coefficient to be calculated.

The regression coefficient was used as another method of determining if fiscal neutrality had been achieved. In this study, total revenue (state and local) was regressed against wealth (equalized assessed valuation per concentrated TWADA pupil). Both wealth and expenditures were transformed into logarithms before the regression coefficient was calculated. The four preceding statistics were calculated on each of the simulations.

The first simulation, data taken directly from the annual claim forms without adjustment for personal property tax or assessment ratio changes, and each of the four resulting statistics were considered as base line data against which other calculations would be compared. The

other three simulations which were prepared were based upon changes in the equalized assessed valuation. The assessed valuation of the school districts was verified by comparison of recorded assessment at the Illinois Office of Education and the Department of Local Government Affairs. Districts with a variation in assessed valuation between the two sources greater than or equal to 1 per cent were excluded.

First, the personal property taxes extended in each school district were divided by the tax rate to determine the personal property equalized assessed valuation for each school district. This value was subtracted from the total equalized assessed valuation of each district, the operational tax rates were held constant, and the state aid claim was computed based upon the reduced assessed valuation. Next, the county weighted median ratio was multiplied times the equalization factor (multiplier) to determine the actual assessment ratio for the county. This was divided into the new assessment ratio of 33 and 1/3 per cent, which resulted in a new equalization factor. The new equalization factor was multiplied times the assessed valuation for each district. This was then used to recompute the amount of state aid, holding tax rates constant, under the provisions of House Bill 990 as it would affect

the districts when fully implemented.⁶ Finally, the new personal property equalized assessed valuation (under House Bill 990) was subtracted from the new district equalized assessed valuation (under House Bill 990), and the state aid entitlement was recomputed holding operational tax rates constant. Thus, there are four grant-in-aid simulations reported in this chapter: (1) 1974-1975 without the 25 per cent limitations, (2) the 1974-1975 distribution with the personal property tax removed, (3) the 1974-1975 distribution with adjustments for House Bill 990 when fully implemented, and (4) the 1974-1975 distribution with simultaneous adjustments for (b) and (c).

In order to perform each of the preceding adjustments, it was necessary to break the total equalized assessed valuation of the school district down into the parcels which were located in each county. Then the adjustments were made to each parcel, and the district equalized assessed valuation was resumed. This was imperative since the equalized assessed valuation of the personalty and the equalization factor are computed and

⁶House Bill 990, as written and signed into law, does not allow for any taxing body to lose assessed valuation. However, for comparison purposes, some school district assessed valuations were actually decreased in this study.

recorded on a county basis and not on a school district basis.

One additional statistic was computed. A Spearman Rank Order Correlation was calculated to determine the magnitude of difference in the rank orders of the districts in terms of equalized assessed valuation per concentrated TWADA under each of the simulated conditions.

Results

Calculation of the assessed valuation and the general state aid entitlement for 988 school districts, under each of the previously described conditions, led to the following results, as shown in Table 1.

The loss of the personal property assessed valuation has a very dramatic effect on the per cent of state support that is provided to the local school districts for operations. Please note that this increased per cent of state support does not result in increased dollars of revenue to the school districts. These funds are replacement funds. In fact, there are individual school districts which have less total dollars of revenue for operations after the adjustment for the loss of the personal property assessed valuation than before, if the money is distributed through the present state grant-in-aid system. There are two reasons for this situation.

TABLE 1
STATEWIDE EFFECTS OF SELECTED ADJUSTMENTS IN SCHOOL DISTRICT
ASSESSED VALUATION ON OPERATIONAL REVENUE

	Local Levy		State Aid		Total Dollars (Billions)
	Dollars (Billions)	Per Cent	Dollars (Billions)	Per Cent	
1974-1975 Base	1.457	51.16	1.391	48.83	2.848
Without Personal Property	1.237	43.96	1.576	56.03	2.813
With House Bill 990	1.465	51.42	1.384	48.57	2.850
Without Personal Property and with House Bill 990	1.245	44.23	1.570	55.76	2.815

First, school districts which have operating tax rates higher than the maximum matching tax rate in the resource equalizer formula will not recoup the amount of money lost because of tax rates in excess of the maximum matching tax rates. In other words, the state grant-in-aid formula does not reward tax rates higher than the qualifying rate. Second, those school districts which had large concentrations of personal property and whose assessed valuation per concentrated TWADA pupil was in excess of the state guarantee would not receive revenue to replace the amount of revenue that was lost from that portion of the assessed valuation per concentrated TWADA pupil which was above the state guarantee. Statewide, with tax rates held constant, the public schools would lose 35 million dollars in combined state and local revenue by removal of the personal property valuation.

Removal of the personal property assessed valuation from the local tax base reduced the local tax revenue available to schools from 1.457 billion dollars to 1.237 billion dollars, for a net loss of 220 million dollars. This reduction of local contribution would result in the percentage of local support slipping from 51.16 per cent to 43.96 per cent, or an average decline of 7.20 per cent. The state, under the mandate to replace the revenue lost, increased state aid to schools from 1.391 billion dollars to

1.576 billion dollars, a net increase of 185 million dollars. This increased the state share of the support of education from 48.83 per cent to 56.04 per cent.

House Bill 990, whose purpose was to correct inequities in assessment levels throughout the state, had minimal effect upon the per cent of state support to schools. With corrections made in the assessment levels, the local support of schools rose from 1.457 billion dollars to 1.465 billion dollars for a net increase of 8 million dollars. This changed the per cent of local support from 51.16 per cent to 51.42 per cent respectively. State aid dropped from 1.390 billion dollars to 1.384 billion dollars, with a corresponding drop in the per cent of state aid from 48.83 per cent to 48.57 per cent. The total net dollar result was that the schools in the state gained approximately 2 million dollars through a better equalization of assessments.

Because the effects of the removal of the personal property assessed valuation were so much more powerful than the effects of House Bill 990, the result of the combination of the effects of both adjustments paralleled the removal of the personal property assessed valuation. The local contribution decreased from 1.457 billion dollars to 1.245 billion dollars for a net loss of 212 million dollars. This resulted in a shift from 51.16 per cent local funding

to 44.23 per cent local funding, or a decline of 6.93 per cent. The state grant-in-aid contribution increased from 1.390 billion dollars to 1.570 billion dollars for a net increase of 180 million dollars based upon 1974-1975 concentrated TWADA pupil. This resulted in a shift from 48.83 per cent state funding to 55.76 per cent state funding for a net increase of 6.93 per cent. The net result of all of these shifts was a decrease of 33 million dollars available to the public schools.

Since the new state grant-in-aid formula attempts to lessen the effects of local district wealth, changes in the relative wealth of different school districts should have an effect upon the ability of the formula to compensate for these differences in wealth. That is, the larger the per cent of state support, the greater fiscal neutrality which would be achieved. Also, any factor which attempted to minimize the differences in school district wealth through differing assessment ratios should reduce the effect of local district wealth. When the Gini Index was computed to determine if these changes had in fact taken place, the results were conclusive for dual districts, but not conclusive for unit districts. (See Table 2.)

Interpretation of the Gini Index was rather straightforward in the cases of the elementary and the high

TABLE 2
THE GINI INDICES FOR SELECTED ADJUSTMENTS
IN DISTRICT ASSESSED VALUATION

District Type	1974-1975 Base	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combination Effect
Elementary	-0.04370	-0.02999	-0.04430	-0.03037
High School	-0.03419	-0.02660	-0.03396	-0.02637
Unit	0.01100	0.01380	0.01114	0.01392
Unit ^a	0.01019	0.01583	0.01035	0.01596

^aCity of Chicago public schools are not included.

school districts. However, during the calculation of the Gini Index for the unit districts, it was noted that the Lorenz Curve crossed the line which designates fiscal neutrality. This seems to indicate that the Gini Indices for the unit districts are not comparable to those Gini Indices in the elementary districts and high school districts in which the Lorenz Curve did not cross the line designating fiscal neutrality.⁷ (See Appendix C.)

⁷Hickrod, Hubbard, and Yang, The 1973 Reform, p. 34.

Elementary school districts moved closer to fiscal neutrality with the removal of the personal property assessed valuation. This was expected since the revenue lost was replaced through a formula which was designed to decrease the importance of local district wealth. The effects of House Bill 990, though, were not as large as might be expected. One reason for this may be that the elementary districts are smaller in size, in geographical area, than are the high school or the unit districts, and they would be more affected by inequities of assessment within a county. House Bill 990, as it was initially applied, reduced the inequities between counties, not within the county. However, the overall effect of both adjustments is to reduce the effect of local district wealth upon the expenditures per TWADA pupil.

High school districts fared similarly to the elementary districts with respect to the effect of the removal of the personal property assessed valuation on the Gini Index. Under House Bill 990, the high school districts moved slightly closer to fiscal neutrality. Again, the apparent reason for this was the geographical size of the district. Since the high school districts were larger in size, they were less responsive to the effects of inequitable assessment within a county.

Computation of the Gini Indices for the unit districts was completed under two different situations, with and without the city of Chicago public schools (see Table 2). In both cases, the Lorenz Curve crossed the line which designated fiscal neutrality (see Figures 1 and 2). This renders the Gini Index uninterpretable, but the Lorenz Curve provides some descriptive information. The city of Chicago expends slightly more of the total educational dollars in the state than their position in terms of assessed valuation per concentrated TWADA pupil would justify in terms of fiscal neutrality. This is true because their tax rate is slightly above three dollars. When the city of Chicago public schools were removed from the calculations, the Lorenz Curve again crossed the line which designates fiscal neutrality. However, the curve stayed closer to the line which designated fiscal neutrality and did not demonstrate the large deviations that were apparent when the city of Chicago public schools were included. Also, the curve, where it was above the line which designated fiscal neutrality, was almost parallel to the line. This would seem to indicate that if the formula were fully funded, the unit districts, excluding city of Chicago public schools, would be very close to fiscal neutrality. It is also apparent that the city of Chicago has more impact, in terms of deviations in the Lorenz

FIGURE 1

LORENZ CURVE 1974-1975 BASE
WITH CITY OF CHICAGO
PUBLIC SCHOOLS

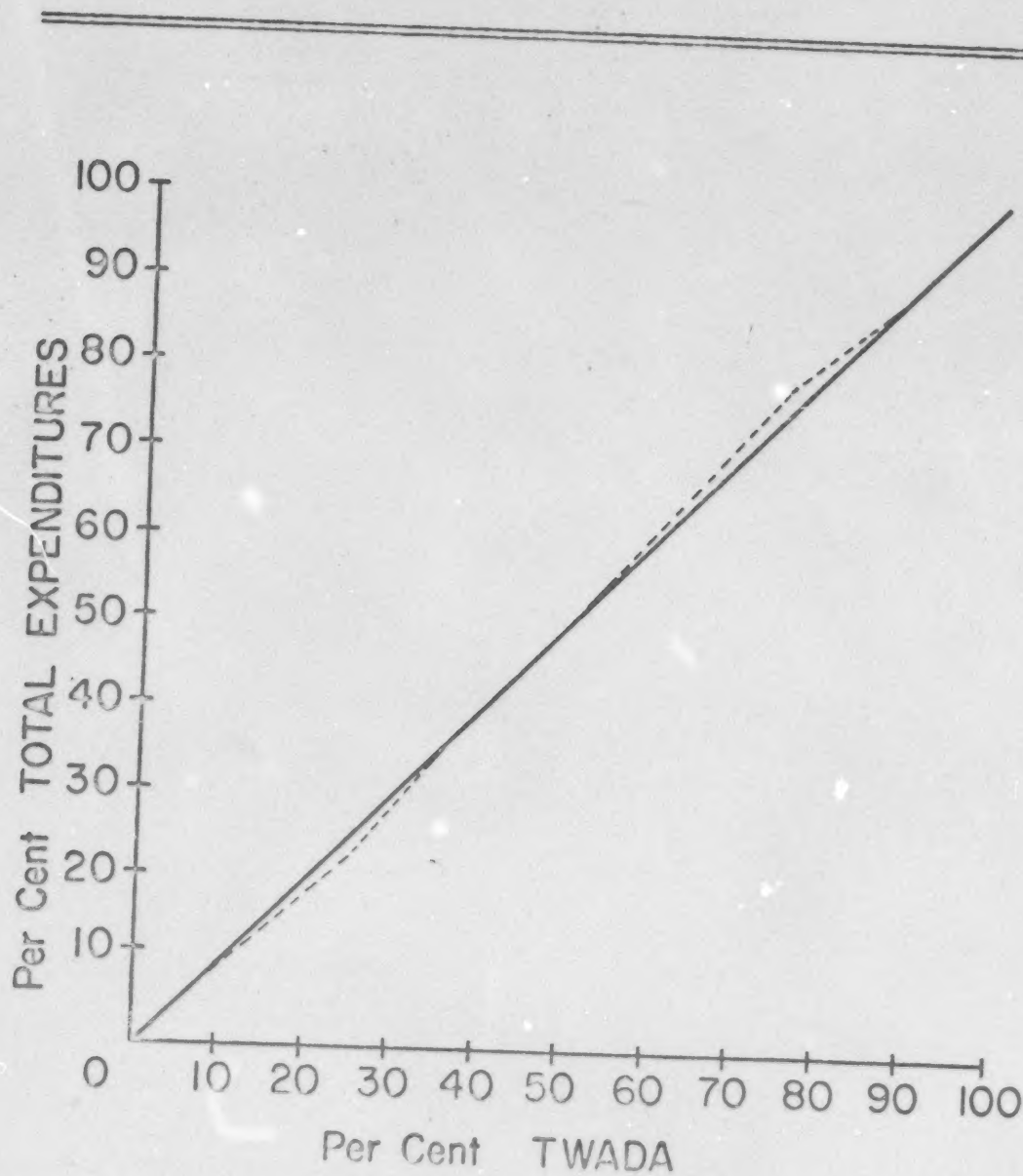
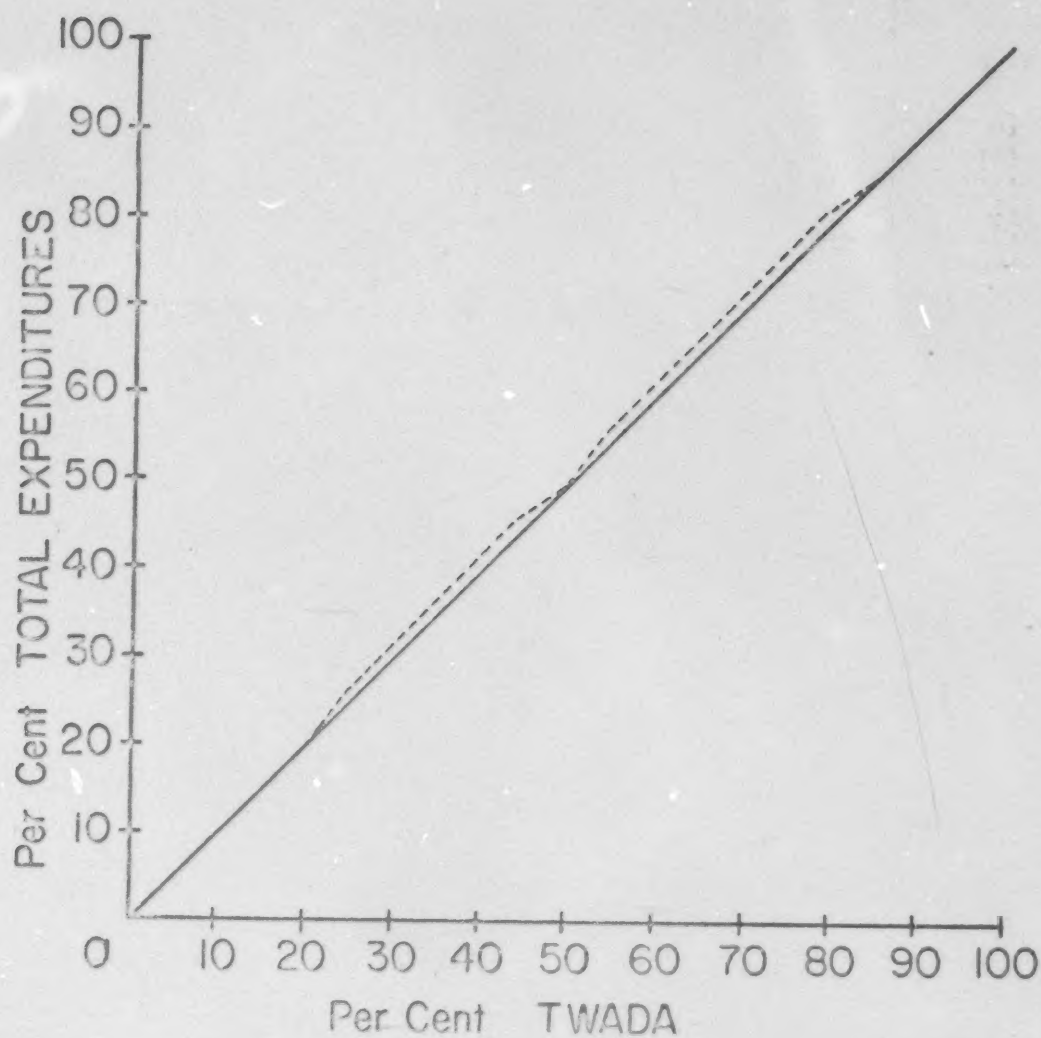


FIGURE 2
LORENZ CURVE 1974-1975 BASE
WITHOUT CITY OF CHICAGO
PUBLIC SCHOOLS



Curve, than any of the treatments relating to the assessed valuation of the districts.

Since this method of measuring fiscal neutrality was inconclusive a second method, the regression coefficient, was used. Unlike the Gini Index, the city of Chicago public schools have no more effect than does any other school district, since there is no automatic weighting for size. Therefore, all regression calculations for unit districts include the city of Chicago public schools. (See Table 3.) Again, as had been demonstrated earlier by the Gini Index, the regression approach shows that the elementary school districts approach greater fiscal neutrality by the removal of the personal property assessed valuation. But, as had been shown previously, the effect of House Bill 990 is to move the elementary districts away from fiscal neutrality. Since the effect of the removal of the personal property assessed valuation is so strong, the combined effect is to move the elementary districts toward greater fiscal neutrality. The effects on the high school districts are the same as those on the elementary districts. The unit districts, however, have much different results. One possible reason for this is a large number of relatively wealthy districts, primarily in regions 3 and 4, which have relatively low expenditures per TWADA pupil. Thus, an additional problem

TABLE 3

REGRESSION ANALYSIS BETWEEN SELECTED ADJUSTMENTS
TO ASSESSED VALUATION PER TWADA PUPIL AND
EXPENDITURE PER TWADA PUPIL

District Type	1974-1975 Base		1974-1975 Without Personal Property		1974-1975 With House Bill 990		1974-1975 Combination	
	Intercept	Slope	Intercept	Slope	Intercept	Slope	Intercept	Slope
Elementary	2.25686	.17205	2.55561	.10445	2.23402	.17650	2.56802	.10129
High School	2.64447	.11402	2.76054	.08842	2.48315	.14855	2.73925	.09331
Unit	2.90000	.02217	3.06609	-.01773	2.90504	.02087	3.09837	-.02521

is created. Although these districts have the resources at their disposal, they may not be utilizing them to the fullest extent, even though the state is not assisting the district with additional grant-in-aid. This demonstrates a need for some measures of the permissible variance in expenditure per TWADA pupil.

The coefficient of variation is one method used to determine the magnitude of variation from the mean expenditure per TWADA pupil by district type. Calculation of the respective coefficients of variation led to the following results:

TABLE 4
COEFFICIENT OF VARIATION FOR TOTAL EXPENDITURE
PER TWADA PUPIL

District Type	1974-1975 Base	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combination Effect
Elementary	27.13712	22.93268	27.29545	22.76747
High School	13.54379	12.86214	15.33916	12.27284
Unit	13.71264	13.50985	14.12823	13.51574

These results seem to indicate that removal of the personal property assessed valuation and the combination of the effects of the removal of the personal property assessed valuation and the effects of House Bill 990 will result in a decrease in the variation in expenditure per TWADA pupil. However, in all cases, the effects of House Bill 990 alone resulted in increased variation in expenditure per TWADA pupil. In the case of the elementary and high school districts this variation seemed to occur all along the distribution. However, in the unit districts this variation only occurred on the top end of the distribution as is demonstrated by the comparison of the coefficient of variation results with the results of the McLoone Index. (See Table 5.)

The results of the McLoone Index seem to indicate that the removal of the personal property assessed valuation decreases the variation in the total expenditure per TWADA pupil in the lower half of the distribution in all three types of districts. The effects of House Bill 990 are mixed. In the case of the elementary districts the variation is increased, which may be caused by the geographical characteristics of the districts. Since many of the districts are small, reducing the inequalities between counties could actually increase the variation between townships in separate counties. This could account for the

TABLE 5
McLOONE INDEX IN TERMS OF TOTAL EXPENDITURE
PER TWADA PUPIL

District Type	1974-1975 Base	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combination Effect
Elementary	.8610155	.8666290	.8595933	.8599905
High School	.9282861	.9301163	.9266419	.9315490
Unit	.9266103	.9280255	.9293984	.9286206

increased variation. In the case of the high school districts, the results seem to indicate again that there is greater variation in the lower half of the distribution with the implementation of House Bill 990. The explanation for this appears to be that some high school districts were drastically underassessed. The median expenditure per TWADA pupil increased from \$1,496 to \$1,511 for an increase of 15 dollars, while the minimum expenditure per TWADA pupil only increased from \$1,094 to \$1,095. At the same time, the maximum assessed valuation per TWADA pupil increased from \$187,597 to \$340,591. This tended to change

the rankings sufficiently to cause the median to change and increase the variance. However, loss of the personal property assessed valuation was powerful enough to offset these changes from underassessment, with the combination effect being an overall decrease in permissible variance.

The unit districts showed decreases in permissible variance under all three conditions. The greatest decrease in permissible variance was brought about by House Bill 990. This would tend to indicate that, in the case of unit districts, equitable assessment is more important in reducing the permissible variance than is the personal property assessed valuation.

Regional Variations

Earlier sections of these results have dealt with measurement methods for the state as a whole. Since the state is not homogeneous in nature, a more careful look at specific regions in the state may provide additional insight. (See Appendix D.)

First, it is helpful to determine the actual dollar amount and the percentage of these dollar amounts in terms of local and state contribution to the support of education by region of the state. This should provide some understanding of the gross allocation of funds within the state (see Table 6 and Table 7). Region 1 receives more

TABLE 6
STATE AND LOCAL CONTRIBUTIONS TO EDUCATION BY REGION
(BILLIONS OF DOLLARS)

Region	1974-1975 Base		1974-1975 Without Personal Property		1974-1975 With House Bill 990		1974-1975 Combination Effect	
	State	Local	State	Local	State	Local	State	Local
1 N.E.	\$.9225	\$1.0419	\$1.0580	\$.8786	\$.9177	\$1.0478	\$1.0534	\$.8844
2 N.W.	.1094	.1121	.1247	.0950	.1180	.1031	.1317	.0878
3 C.W.	.0817	.1004	.0947	.0863	.0845	.0974	.0968	.0842
4 C.E.	.0727	.0980	.0802	.0879	.0767	.0930	.0840	.0836
5 S.W.	.1233	.0649	.1331	.0543	.1134	.0752	.1243	.0636
6 S.E.	.0810	.0398	.0856	.0348	.0740	.0478	.0795	.0415

TABLE 7
STATE AND LOCAL CONTRIBUTIONS TO EDUCATION BY REGION
(BY PER CENT)

Region	1974-1975 Base		1974-1975 Without Personal Property		1974-1975 With House Bill 990		1974-1975 Combination Effect	
	State	Local	State	Local	State	Local	State	Local
1 N.E.	66.34	71.51	67.12	71.03	66.29	71.51	67.11	71.03
2 N.W.	7.87	7.69	7.91	7.68	8.52	7.04	8.39	7.05
3 C.W.	5.88	6.89	6.00	6.98	6.10	6.65	6.17	6.76
4 C.E.	5.23	6.73	5.09	7.11	5.54	6.35	5.35	6.71
5 S.W.	8.87	4.45	8.44	4.39	8.19	5.20	7.92	5.11
6 S.E.	5.82	2.73	5.43	2.81	5.35	3.26	5.06	3.33

state aid than any other region in the state; however, region 1 has approximately 62.5 per cent of the TWADA pupils in the state. Region 1 also generates the largest per cent of local contribution of any of the regions. The removal of the personal property assessed valuation results in increased dollars in state aid to all regions and an increased per cent of state aid going to regions 1 through 4. Regions 5 and 6 will receive slightly less, indicating that they have slightly less than the state average per cent of personal property assessment on the tax rolls. When House Bill 990 corrections are made, the results are quite interesting. Region 1 has no change in the per cent of local contribution. Regions 2, 3, and 4 all have slight decreases in the per cent of local contribution, which indicates that they may have been overassessed. Regions 5 and 6 have increases in the per cent of local contribution, which suggests that they have been underassessed.⁸

⁸ House Bill 990, as written and signed into law, does not allow any unit of local government or school district to lose assessed valuation during implementation. Instead, it simply slows or accelerates the rate at which all taxing bodies must reach the 33 and 1/3 per cent assessment rate. In this study, district assessed valuations were decreased only for purposes of demonstration and comparison.

The combination effect of House Bill 990 and the removal of the personal property assessed valuation is that regions 1 through 4 will receive a greater per cent of the total state aid and they will have a lower per cent of local contribution. Regions 5 and 6 will receive a lower per cent of the total state aid and they will have a greater per cent of local contribution. However, region 6 is the only region which will lose any actual dollars in state aid under the combination effect. Under House Bill 990, both regions 5 and 6 will lose state aid. Losses in state aid and/or losses in local contribution can result in decreases in expenditures per TWADA pupil as is shown in Table 8. This table can be reflected against Table 9 to emphasize some of the problems which were discussed earlier under the topic of permissible variance.

The most striking facts to be gathered from Tables 8 and 9 is that even though regions 4 and 3 are the wealthiest and second wealthiest regions in the state in terms of equalized assessed valuation per TWADA pupil, they have the fifth and sixth lowest expenditures per TWADA pupil.

TABLE 8
REGIONAL VARIATIONS IN AVERAGE EXPENDITURE
PER CONCENTRATED TWADA PUPIL AS A RESULT
OF ADJUSTMENTS IN EQUALIZED
ASSESSED VALUATION

Region	1974-1975 Base	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combination Effect
1 N.E.	\$1,351	\$1,332	\$1,351	\$1,332
2 N.W.	1,038	1,029	1,036	1,029
3 C.W.	948	942	947	942
4 C.E.	1,002	988	997	984
5 S.W.	1,058	1,053	1,066	1,056
6 S.E.	1,023	1,019	1,031	1,025

TABLE 9
REGIONAL VARIATIONS IN EQUALIZED ASSESSED VALUATION
PER CONCENTRATED TWADA PUPIL AS A RESULT
OF ADJUSTMENTS IN EQUALIZED
ASSESSED VALUATION

Region	1974-1975 Base	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combination Effect
1 N.E.	\$20,935	\$17,491	\$21,096	\$17,643
2 N.W.	21,476	16,135	19,735	16,714
3 C.W.	23,341	20,041	22,695	19,579
4 C.E.	25,467	22,513	24,191	21,422
5 S.W.	14,523	12,197	17,046	14,280
6 S.E.	13,821	12,047	16,687	14,442

Community Analysis

Since many people today are concentrated in urban settings, a method which demonstrates differences by community type can be helpful. Table 10 demonstrates the changes which occurred in average expenditure per concentrated TWADA pupil.

TABLE 10

VARIATIONS IN AVERAGE EXPENDITURE PER
CONCENTRATED TWADA PUPIL AS A RESULT
OF ADJUSTMENTS IN EQUALIZED
ASSESSED VALUATION

Community Type	1974-1975 Base	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combination Effect
Central City	\$1,218	\$1,215	\$1,217	\$1,215
Independent City	1,040	1,038	1,042	1,039
High Growth Suburb	1,320	1,319	1,338	1,320
Low Growth Suburb	1,363	1,324	1,362	1,324
Rural	1,002	987	1,004	989

The central city, independent city, and high growth suburb all had little or no reduction in expenditure per concentrated TWADA pupil as a result of the changes in assessed valuations. This would probably be because of high tax rates and/or low assessed valuations, which would generate maximum replacement under the state grant-in-aid formula. However, older suburban areas and rural areas with comparatively high assessed valuation and lower tax rates would experience a drop in total funds available because they would not receive the maximum replacement under the state grant-in-aid formula. Table 11 demonstrates the equalized assessed valuation per concentrated TWADA pupil.

Table 11 shows that the low growth suburbs have the highest assessed valuation per TWADA pupil of any of the community types. However, the information on the rural districts is inconclusive. It would certainly appear that low tax rates would be the cause for the incomplete replacement. This is especially suspected since regions 3 and 4, which are primarily rural, have low expenditure per pupil and high assessed valuation per pupil.

TABLE 11

VARIATIONS IN EQUALIZED ASSESSED VALUATION
PER CONCENTRATED TWADA PUPIL AS A RESULT
OF ADJUSTMENTS IN EQUALIZED
ASSESSED VALUATION

Community Type	1974-1975 Base	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combination Effect
Central City	\$19,565	\$15,339	\$18,918	\$14,825
Independent City	20,821	17,762	20,933	17,887
High Growth Suburb	21,779	19,663	21,998	19,875
Low Growth Suburb	22,081	18,627	22,429	18,911
Rural	21,056	18,494	22,339	19,611

Selected School Districts

State, regional, and community measures do not fully portray the problem which will result in individual school districts by the removal of the personal property assessed valuation. The money the school districts will receive in the increased state grant-in-aid payments is not new money, but it is instead replacement money. In many of the school districts in the state, this replacement money will be sufficient to replace all of the revenue lost through the

removal of the personal property assessed valuation. However, in certain selected school districts this will not be the case. Table 12 demonstrates what the effects of this removal will be, in terms of local contribution, in ten selected school districts in the state.

TABLE 12

EFFECTS OF THE REMOVAL OF PERSONAL PROPERTY ASSESSED
VALUATION ON SELECTED SCHOOL DISTRICTS' PER CENT
OF LOCAL CONTRIBUTION

	Base Levy		Adjusted Levy	
	Dollars	Per Cent	Dollars	Per Cent
Sorona Dist. #390	\$ 428,337	90.63	\$ 268,730	61.64
Meredosia Dist. #11	494,445	86.25	264,024	57.56
Monticello #25	2,221,602	94.94	611,060	66.36
Laraway Dist. #700	668,765	93.25	304,909	65.22
Vonice Dist. #3	835,103	92.32	488,694	64.50
Rockdale Dist. #84	668,932	96.99	188,665	70.73
Patcha Dist. #100	219,130	68.79	137,953	43.30
Erie Dist. #1	1,310,132	91.49	640,638	66.77
TRICO Dist. #176	565,916	45.95	29,001	23.54
East Peoria #86	2,050,773	76.07	1,479,597	54.88

Serena school district could have generated \$428,337 in tax revenue at the local level in 1974-1975, or 90.61 per cent of the money which was available to the school district. After the personal property assessed valuation was removed, using the same tax rates, the new assessed valuation only generated \$288,730, or 61.64 per cent of the money which was available to the district. Even though these districts had the greatest per cent of decrease in local contribution to the schools, they did not necessarily lose the greatest number of dollars. Table 13 lists the ten school districts which had the greatest decline in actual dollars.

School districts with high assessed valuations per concentrated TWADA pupil have enjoyed low tax rates and will not be able to recoup all of their losses without referendums to increase the tax rates. Monticello Community Unit School District #25 would only be able to generate a total of \$920,759 with their present tax rates if the personal property assessed valuation were removed. Contrast this to the \$2,339,956 which is presently being spent on education in the school district. If the present voter resistance to property tax rate increases continues, the residents of school districts that have a large amount of personal property assessed valuation in their tax base may have some difficult decisions to make

TABLE 13

TEN SELECTED SCHOOL DISTRICTS WHICH HAD THE
GREATEST DOLLAR LOSS FROM THE REMOVAL OF
PERSONAL PROPERTY ASSESSED VALUATION

	Base Levy Dollars	Adjusted Levy Dollars	Difference Dollars
City of Chicago	\$384,899,235	\$297,137,137	\$87,762,098
Rockford Dist. #205	22,069,649	17,557,296	4,512,353
Township H.S. #214	25,332,065	22,479,066	2,852,999
J. S. Morton #201	10,713,262	8,064,554	2,648,708
Waukegan Dist. #20	9,368,672	6,763,649	2,605,023
Peoria Dist. #150	13,592,425	11,094,819	2,497,606
Niles Dist. #219	14,589,205	12,303,153	2,286,052
Granite City #9	6,897,353	4,684,003	2,213,350
Valley View #365U	8,063,911	5,850,914	2,212,997
Proviso Dist. #209	11,716,277	9,942,376	1,773,901

concerning the future of their schools. The five school districts that will have the largest per cent of loss of funds available for education are presented in Table 14.

Needless to say, the districts with the greatest per cent of loss will have to make the most substantial changes in their tax rates to recoup the lost monies.

TABLE 14
THE FIVE SCHOOL DISTRICTS WITH GREATEST
PER CENT LOSS OF TOTAL DOLLARS
FOR EDUCATION

	Total Dollars	Per Cent
Rockdale Dist. #84	\$ 422,929	61.32
Monticello #25	1,419,197	60.65
Hollis Dist. #328	124,519	59.92
Miller Dist. #210	89,257	45.98
McAuley Dist. #270	25,960	44.30

If the districts with the largest per cent of loss were also the districts with the greatest dollar loss, then the problem would be more straightforward. The districts which had the greatest actual dollar loss are shown in Table 15.

Those districts with a small per cent of loss, regardless of dollar value, can recoup their loss with minor changes in their tax rates. However, those with large percentages of loss must consider wholesale changes in their tax rates.

Fortunately, there is not a large number of these severely affected school districts. A Spearman Rank Order

TABLE 15
THE FIVE SCHOOL DISTRICTS WITH
GREATEST ACTUAL DOLLAR LOSS
IN UNREPLACED FUNDS

	Total Dollars	Per Cent
City of Chicago	\$1,813,467	.21
Monticello #25	1,419,197	60.65
Township H.S. #214	1,416,052	3.44
Leyden Dist. #212	1,185,866	13.30
J. S. Morton #201	1,060,633	7.42

Correlation was calculated to determine how much rearrangement had occurred in the ranking of school districts in terms of equalized assessed valuation per TWADA pupil. If there was a low correlation between different rankings, it would indicate there had been a large shift in the rankings of the districts in terms of assessed valuation per TWADA pupil indicating that the effect was widespread in terms of number of districts. Table 16 shows the results of those calculations. The generally high correlations indicate that the relative standing of school districts is not greatly affected even though

the absolute effects on individual districts can be great.

TABLE 16
SPEARMAN RANK ORDER CORRELATION FOR
EQUALIZED ASSESSED VALUATION
PER TWADA PUPIL

District Type ^a	1974-1975 Without Personal Property	1974-1975 With House Bill 990	1974-1975 Combina- tion	
Unit	.9315 ^b			
High School	.9295			1974-1975
Elementary	.9688			With House Bill 990
Unit	.9600	.9757		
High School	.9459	.9809		1974-1975
Elementary	.9793	.9215		Combina- tion
Unit	.9819	.9549	.9438	
High School	.9828	.9403	.9254	1974-1975
Elementary	.9925	.9775	.9728	Base

^aUnit N = 419, High School N = 127, Elementary
N = 442.

^bAll correlations are significant at the .001
level.

CHAPTER IV
COST ESTIMATES FOR REPLACEMENT REVENUE
TO UNITS OF LOCAL GOVERNMENT
AND SCHOOL DISTRICTS

Purpose 14 of this study, stated in Chapter I, was:

14. Estimate the amount of funds which the constitution says must be replaced to all units of local government and school districts on January 1, 1979, by the state, as a result of the proposed abolition.

An earlier study had reported the amount of revenue needed to replace the revenue lost to units of local government and school districts at approximately 555 million dollars.¹ However, the projections made during the course of this study placed the figure around 680 million dollars. Since these projections are substantially higher than the projections reported earlier, an explanation of the assumptions made and the method of analysis used is necessary to support these new, higher projections.

Prior to 1970, personal property assessed valuation, as listed on the tax books, included individual

¹Carlton P. Morin and others, Replacement Revenue Sources (Chicago: Illinois State Chamber of Commerce, 1973), p. 1.

personal property assessed valuation with all other personal property assessed valuation. From 1970 to 1973 some county boards of review removed the individual personal property assessed valuation from the tax books, while other boards of review left it on the tax books pending the final outcome of litigation to determine the legality of removing personal property classified in this manner from the property books. In February 1973, the United States Supreme Court held that individual personal property could be exempted from taxation.² Therefore, personal property which was listed on the tax books in years subsequent to 1972 would be that personal property which, if removed from the tax books, would cause revenue to be lost to units of local government and school districts, thereby meeting the requirements of Article IX, section 5 (c) of the Illinois Constitution of 1970. Since predictions made on the basis of two years of data have a greater possibility for error than those made using a longer time period of background data, a method of investigation had to be devised which would allow for the expansion of the time period of background data.

Further complicating the projections was a change in the method of determining state grants-in-aid to school

²Elk Grove Engineering v. Korzen, 304 N.E. 2d 65 (1973).

districts. The state legislature, in July 1973, adopted a state aid formula which raised the state contribution to local school districts from 37 per cent in 1972-1973 to 49 per cent in 1975-1976. The result was a decline in the per cent of local contribution to local schools from 57 per cent in 1972-1973 to 45 per cent in 1975-1976.³ Since this decline was only a recent phenomenon, it would have a small effect on projections based upon a long-time period of background data. Some method had to be devised to evaluate the effect of this phenomenon on the 1979 projections.

Data Sources

Data for the projection of the total equalized assessed valuation of real estate were gathered, using the years 1946-1974 as the basis of the projections. Data for 1946-1972 were obtained from Table XVII, "Assessment of Principal Classes of Property for Cook County, Downstate, and Entire State 1887-1971 [sic]," Illinois Property Tax

³Illinois, The State Board of Education, Illinois Office of Education, State, Local, and Federal Financing for Public Schools 1975-1976, Circular Series A, Number 349 (Springfield: Illinois Office of Education, 1975), p. 4.

Statistics 1972.⁴ Data for 1973 were gathered from Table XVII, "Assessment of Principal Classes of Property for Cook County, Downstate, and Entire State 1887-1973," Illinois Property Tax Statistics 1973.⁵ Data for 1973 were obtained from county abstracts on file in the Department of Local Government Affairs, Office of Financial Affairs.

Data for the estimation of the total equalized assessed valuation of personal property in the state of Illinois were procured using 1973 and 1974 as the basis for the estimate. Personal property data prior to 1973 contain individual personal property equalized assessed valuations also, which makes it unfit for the use of this study. Data for 1973 were gathered from Table XIX, "Equalized Valuations of Local and State Assessed Property by Classes, Per Cent of Total 1972 and 1973," Illinois Property Tax Statistics 1973.⁶ Data for 1974 were obtained from county abstracts on file in the Department of Local Government Affairs, Office of Financial Affairs.

⁴Illinois, Department of Local Government Affairs, Office of Financial Affairs, Illinois Property Tax Statistics 1972 (Springfield: Department of Local Government Affairs, 1975), p. 169.

⁵Illinois, Department of Local Government Affairs, Office of Financial Affairs, Illinois Property Tax Statistics 1973 (Springfield: Department of Local Government Affairs, 1975), p. 168.

⁶Ibid., p. 170.

Data for the projection of the total taxes levied at the local level were gathered using the years 1946-1973 as the basis for the projections. Data for the years 1953-1973 were acquired from Table XIII, "Valuations and Total Property Taxes Extended 1953-1973 Inclusive," Illinois Property Tax Statistics 1973.⁷ Data for the years 1946-1952 were gathered from Table XIV, "Valuations and Total Property Taxes Extended 1946-1966 Inclusive," Illinois Property Tax Statistics 1966.⁸

Data for the projections of the total educational taxes levied at the local level were obtained using the years 1946-1973 as the basis for the projections. Data for the years 1960-1972 were drawn from Table XII, "Comparison of Total Taxes and School Taxes, 1960-1972," Illinois Property Tax Statistics 1972.⁹ Data for 1973 were gathered from Table XII, "Comparison of Total Taxes and School Taxes, 1961-1973," Illinois Property Tax Statistics 1973.¹⁰ Data for the years 1955-1960 were taken from

⁷Ibid., p. 166.

⁸Illinois, Department of Revenue, Division of Local Governmental Affairs and Property Taxes, Illinois Property Tax Statistics 1966 (Springfield: Department of Revenue, n.d.), p. 133.

⁹Illinois, Tax Statistics 1972, p. 166.

¹⁰Illinois, Tax Statistics 1973, p. 165.

Table XIII, "Comparison of Total Taxes Extended and School Taxes Extended, 1955-1967," Illinois Property Tax Statistics 1967.¹¹ Data for the years 1952-1955 were gathered from Table XIII, "Comparison of Total Taxes Extended and School Taxes Extended, 1952-1964," Illinois Property Tax Statistics 1964.¹² Data for 1947 were obtained from Table IV, "Summary of Current Taxes Extended in Each County, 1947," Illinois Property Tax Statistics 1947.¹³ Data for 1946 were gathered from Table IV, "Summary of Current Taxes Extended in Each County, 1946," Illinois Property Tax Statistics 1946.¹⁴ Data for the years 1948, 1949, 1950, 1951, and 1974 were not found.

Assumptions

First, it was assumed that the growth rate in total real estate equalized assessed valuation would continue at

¹¹Illinois, Department of Revenue, Division of Local Governmental Affairs and Property Taxes, Illinois Property Tax Statistics 1967 (Springfield: Department of Revenue, n.d.), p. 141.

¹²Illinois, Department of Revenue, Property Tax Division, Illinois Property Tax Statistics 1964 (Springfield: Department of Revenue, n.d.), p. 99.

¹³Illinois, Department of Revenue, Property Tax Division, Illinois Property Tax Statistics 1947 (Springfield: Department of Revenue, 1950), pp. 8-13.

¹⁴Illinois, Department of Revenue, Property Tax Division, Illinois Property Tax Statistics 1946 (Springfield: Department of Revenue, 1949), pp. 8-12.

the rate that was exhibited from 1946-1974. Second, it was assumed that the ratio of personal property equalized assessed valuation to real estate equalized assessed valuation in 1973 and 1974 was typical of the ratios that would be experienced in years 1975-1979.

Analysis of the Data

The regression analysis was used as the statistical method for analysis of the data. The assumption of this approach is that the underlying relationships among the variables are linear and additive.¹⁵ When the data were graphed, it was clear that a simple linear relationship did not exist as one might expect if the growth rate was constant. Therefore, the equation

$$\phi_t = I (1 + g)^t$$

where I is the output of the beginning year, g is the unknown growth rate, and ϕ_t is the output for year t ; could not be utilized until it was transformed to:

$$\log_{10} \phi_t = \log_{10} I + [\log_{10} (1 + g)]t;$$

which may be more easily recognized as a simple linear equation when written as:

¹⁵Jae-On Kim and Frank J. Kohout, "Special Topics in General Linear Models," Statistical Package for the Social Sciences (New York, N.Y.: McGraw-Hill, 1975), p. 369.

$$Y = A + Bt$$

where $Y = \log_{10} \phi_t$, $A = \log_{10} I$, and $B = [\log_{10} (1 + g)]$.¹⁶

Data for the total real estate equalized assessed valuation was transformed with time being the independent variable. Total real estate equalized assessed valuation was the sum of the total equalized assessed valuation for lots and the total equalized assessed valuation for lands for the years 1946-1973. The resulting curve was plotted, and both multiple R and R-square were computed. Since the growth rate g is computed from the following relationship with the regression coefficient B :

$$B = \log_{10} (1 + g),$$

then

$$\text{Antilog } B = 1 + g$$

and

$$g = (\text{Antilog } B) - 1.$$

The projections of the total taxes levied at the local level, the total educational taxes levied at the local level, and the alternative projection of the total educational taxes levied at the local level (made to determine the effects of the new state aid formula on the 1979

¹⁶Ibid., p. 370.

projection) were accomplished in the same manner as the total real estate equalized assessed valuation projections.

Estimation of the projected personal property equalized assessed valuation was accomplished in a somewhat different manner. The ratio of the total personal property equalized assessed valuation to the total real estate equalized assessed valuation was computed for 1973 and 1974. These ratios, .1633 and .1611 respectively, were multiplied by each of the projected total real estate equalized assessed valuations for the time period 1975-1979. These two values were averaged to arrive at one estimate for each year.

The estimates of the educational taxes levied at the local level and the alternative educational taxes levied at the local level which would be lost were calculated by multiplying the projected respective tax by .1366 and .1349. These were the percentages of the assessed valuation of personal property of the total assessed valuation of all property in the state of Illinois in 1973 and 1974 respectively. If this assessed valuation percentage would suddenly demonstrate a wide variation from the 1973 and 1974 percentages, then the estimates would vary accordingly.

Results

Calculation of the previously described projections and estimates gave results as shown in Table 17.

TABLE 17
PROJECTED REAL ESTATE EQUALIZED
ASSESSED VALUATIONS^a

Year	Dollars
1975	\$43,900,000,000
1976	45,500,000,000
1977	47,200,000,000
1978	49,000,000,000
1979	50,800,000,000

$$^aA = 4.162, B = .016, n = 29, R^2 = .9930, g = .038.$$

The projections in Table 17 were then multiplied by .1633 and .1611, the ratio of the total personal property equalized assessed valuation to the total real estate equalized assessed valuation for 1973 and 1974 respectively. The resulting two values were averaged to arrive at one estimate for each year, as shown in Table 18.

TABLE 18
ESTIMATED TOTAL PERSONAL PROPERTY
EQUALIZED ASSESSED VALUATION

Year	Dollars
1975	\$7,100,000,000
1976	7,400,000,000
1977	7,700,000,000
1978	7,900,000,000
1979	8,200,000,000

The projection of total taxes levied locally was accomplished through a regression analysis of a logarithmic transformation of formula (1). These projections are given in Table 19.

To estimate the total tax monies lost, the projections in Table 19 were then multiplied by .1366 and .1349. Of the total assessed valuation of all property in the state of Illinois in 1973 and 1974 respectively, these were the percentages of the assessed valuation of personal property. The resulting two values were averaged to arrive at one estimate for each year. These

TABLE 19
PROJECTED TOTAL TAXES LEVIED LOCALLY^a

Year	Dollars
1974	\$3,460,000,000
1975	3,720,000,000
1976	4,010,000,000
1977	4,320,000,000
1978	4,650,000,000
1979	5,000,000,000

^aA = 5.611, B = .032, n = 28, R² = .9964, g = .076.

results are given in Table 20.

The projection of total educational taxes levied locally was accomplished through a regression analysis of a logarithmic transformation of formula (1). These projections are given in Table 21.

To estimate the educational monies lost, the projections in Table 21 were then multiplied by .1366 and .1349, and averaged, as was previously described. The results are shown in Table 22.

TABLE 20
ESTIMATED TOTAL TAX MONIES LOST

Year	Dollars
1974	\$470,000,000
1975	510,000,000
1976	540,000,000
1977	590,000,000
1978	630,000,000
1979	680,000,000

TABLE 21
PROJECTED TOTAL EDUCATIONAL TAXES
LEVIED LOCALLY^a

Year	Dollars
1975	\$2,470,000,000
1976	2,690,000,000
1977	2,930,000,000
1978	3,190,000,000
1979	3,480,000,000

^aA = 5.283, B = .037, n = 24, R² = .9945, g = .009.

TABLE 22
ESTIMATED EDUCATIONAL MONIES LOST

Year	Dollars
1975	\$340,000,000
1976	370,000,000
1977	400,000,000
1978	430,000,000
1979	470,000,000

In order to determine the effect of the new state aid formula on the 1979 projections, alternative projections were made using an $n = 6$. The data used were from 1968 to 1973 because the state had provided a higher level of support to local school districts than they had in the earlier twenty-two years. This would amplify the effect of the increased state contribution and decreased local contribution, which should have resulted in a lower rate of tax increase. The results are shown in Table 23.

To determine the educational monies lost based on the effect of the new state aid formula, these projections were then multiplied by .1366 and .1349 and

TABLE 23
 ALTERNATIVE PROJECTED TOTAL EDUCATIONAL
 TAXES LEVIED LOCALLY^a

Year	Dollars
1975	\$2,240,000,000
1976	2,390,000,000
1977	2,550,000,000
1978	2,720,000,000
1979	2,900,000,000

^aA = 5.510, B = .028, n = 6, R² = .9773, g = .067.

averaged, as was previously described. This alternative estimate of the educational monies lost is reported in Table 24.

Summary

Based upon the preceding estimates and projections, it appears that the legislature will have to replace approximately \$680,000,000 of lost revenue to units of local government and school districts on January 1, 1979. If the state continues to provide 49 per cent of the funding to local school districts, it would appear that the state would have to provide \$390,000,000 to school

TABLE 24
ALTERNATIVE ESTIMATE OF EDUCATIONAL
MONIES LOST

Year	Dollars
1975	\$300,000,000
1976	320,000,000
1977	350,000,000
1978	370,000,000
1979	390,000,000

districts on January 1, 1979. However, if the percentage of state contribution returns to a level more closely approximating that which occurred in the majority of the time period 1946-1973, then the state may have to replace \$470,000,000.

CHAPTER V
ALTERNATIVE TAX SOURCES FOR
REPLACEMENT REVENUE

Accepting the argument proposed in Chapter II that the legislature has definite limitations imposed upon its power to determine the method of taxation that will be used to replace the revenue lost under section 5 (c) should it choose to accept the mandate to abolish the ad valorem personal property tax, the need for answers to the following questions becomes apparent. What limitations does the legislature have imposed upon its powers? What alternative tax sources are available? What would be the effect of these alternative taxes on the competitive advantage of Illinois businesses?

Constitutional Limitations

Careful reading of section 5 (c) indicates that four strict limitations are placed upon the legislature. The first constitutional limitation on the power of the legislature is that the legislature has an immediate and continuing responsibility to replace all revenue lost by units of local government and school districts. There is, however, no statement as to how this must be accomplished.

Also, there is no indication if this means that the revenue lost had to be returned to the taxing body that lost it.

The second constitutional limitation on the power of the legislature is that the replacement tax imposed must be statewide in nature. However, there is no clear statement as to whether the tax is to be levied, collected, and distributed by the state, or whether the legislature may delegate this authority to the units of local government. Also, there is no mention of a uniform rate. It could be assumed that if the legislature chose to delegate this authority the rate could differ between units of local government as long as the taxes extended were sufficient to replace the monies lost from the abolition of the ad valorem personal property tax.

The third constitutional limitation is that the replacement taxes may not be ad valorem taxes on real estate. Note that this does not prohibit all real estate taxes, simply ad valorem taxes on real estate.

The last constitutional limitation is that the tax must apply to those classes relieved of the burden of paying the tax. However, since the only classes which would be exempt are individuals, as previously defined in Chapter II, who have not been taxed under the Illinois Constitution of 1970, the population to be taxed remains virtually the same.

The limitations are quite succinct. The tax may not be imposed upon anyone but those classes relieved, it may not be ad valorem real estate, it must be statewide in nature, and it must be sufficient in size to replace all revenue lost by units of local government and school districts. Since these limitations are not extremely debilitating, further criteria must be developed to determine the suitability of the alternative tax.

Philosophical Criterion

Classical and modern literature on taxation provides additional criteria for determining the desirability of a tax. These criteria should be viewed as goals of a tax and not as requirements for the survival of the tax.

The first criterion is adequacy of the tax.¹ Projections in Chapter IV forecast that a replacement tax must be able to generate approximately \$510,000,000 in 1975 and \$680,000,000 in 1979 for replacement revenue. Since this is a continuing obligation, the tax should have a long-term average annual growth potential in the neighborhood of 7.5 per cent per year, as was calculated on page 102.

¹Stephen F. Weston, Principles of Justice in Taxation (New York: AMS Press, 1968), p. 46.

Equity, as defined in Chapter I, is the equal treatment of equals.² Or as John Stuart Mills expressed it:

. . . Equality of taxation therefore, as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than any other person experiences from his.³

Or as Adam Smith stated:

. . . The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue they enjoy under the protection of the state.⁴

These admonitions could be interpreted to mean that any tax which is imposed should treat all members of each class of taxpayers equally, but it does not need to treat all classes equally.

Taxes which are not progressive in their rate structure may tend to be regressive, but are not

²James M. Buchanan, Public Finance in Democratic Process (Chapel Hill: The University of North Carolina Press, 1967), p. 294.

³John Stuart Mills, Principles of Political Economy With Some of Their Application to Social Philosophies (London: Longmans, Green, and Co., 1886), p. 392.

⁴Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations (London: T. Nelson and Sons, 1764), p. 392.

necessarily so. Flat rate taxes on consumption tend to be regressive; ". . . the most regressive elements are the property tax, general sales tax, and the selective excises."⁵ However, flat rate income taxes need not be considered regressive; ". . . a broad-based flat rate tax can pack both a heavy revenue punch and provide a substantial degree of progression when combined with personal exemptions."⁶

Impact of taxation and incidence of taxation are two criteria which should be discussed together. The impact (who is originally taxed) of taxation and the incidence (who finally bears the burden of the tax) of taxation are not necessarily the same. If the constitutional limitation to tax solely those classes relieved of the burden of the tax is actually to be accomplished, then it is assumed that the tax which is to be used as a replacement will be one which is shifted in the same manner and the same direction as was the personal property tax.

⁵ Advisory Commission on Intergovernmental Relations, State-Local Revenue Systems and Educational Finance (Washington, D.C.: Government Printing Office, 1972), pp. 2-17.

⁶ Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, Report No. M-57 (Washington, D.C.: Government Printing Office, 1971), p. 1.

Elasticity is "... the ratio of the percentage increase in tax collections at a constant tax rate to the percentage increase in gross national product. . . ." ⁷

However, it is not wise to infer that it is beneficial to have high elasticity rather than low elasticity. The above definition works in both directions. In times of economic recession, tax revenue collected declines as gross national product declines. This lesson was learned in Illinois in 1975 when the governor was unable to fund the state expenditures at the proposed budget levels due to less than projected state revenue brought on by the recession. Illinois depends heavily upon the income tax and the general sales tax for state revenues. Since the personal income tax is a very elastic tax, as is the corporate income tax, (but not the general sales tax), it is evident why a decline in gross national product was felt so quickly in the Illinois revenue collections. ⁸ It is preferable to have a tax which has some elasticity so that the taxing body is not severely affected by inflation, but not too much elasticity, because the recessions can be just as devastating. An elasticity of approximately one is

37. ⁷Advisory Commission, Educational Finance, pp. 2-

⁸Ibid., pp. 2-42.

preferable.⁹ This causes a change in gross national product to bring about a proportional change in revenue.

A tax must be administratively feasible. If the tax cannot be administered because the information needed to assess the tax is not readily available (as was the case of intangible personal property) or if the cost of administration and enforcement is so high as to make the tax uneconomical to collect (as was the case of taxing tangible personal property of individual residents in Illinois), then the tax is not administratively feasible. Ideally, a tax should be levied on a base which cannot be easily transported or hidden, and should have high enough valuation per unit to make the returns for collection higher than the cost of collection without the tax being confiscatory. This is not to be construed to mean that income cannot be taxed. Since the institution of the federal income tax, information concerning gross, adjusted gross, and net income has become available to state governments.

Finally, an alternative tax should not have a negative effect on production. If taxpayers feel the tax rate has become so high as to make them unable to compete with out-of-state producers and as a result either leave

⁹Ibid., pp. 2-51.

the state or cease production, then this reduces the tax base--hence the revenue--and becomes dysfunctional. Therefore, the tax differential between states becomes significant.

In considering the total tax bill differential, little attention is paid to the type of tax. Businessmen seem to feel that if a particular jurisdiction lacks a given type of tax--for example a State corporate income tax--it will have other taxes whose burden will be sufficient to make up for the absence of a particular levy.¹⁰

This does not mean that rates of individual taxes which are components of the total tax load cannot be higher than in neighboring states. It only means that the burden of the combined taxes on business firms must be comparable to that of neighboring states.

The replacement tax would be characterized as one which generated approximately \$680,000,000 on January 1, 1979 and had the elasticity to produce approximately 7.5 per cent of new revenue annually. Further, it would tax only those classes relieved of the tax on personal property, would be shifted to the same degree and in the same direction as the personal property tax, would be responsive to the moods of the economy, would be easily and economically administered, and would not be an ad valorem tax on

¹⁰Advisory Commission on Intergovernmental Relations, State-Local Taxation and Industrial Location, Report No. A-30 (Washington, D.C.: Government Printing Office, 1967), p. 62.

real estate. Finally, it must be statewide in nature and not likely to change the competitive advantage of any classes upon which it was imposed. What taxes in present use could be expanded, or what new taxes imposed which would fulfill these requirements?

Present Taxes

Of the sixteen major taxes which were levied and collected by the Illinois Department of Revenue in 1974, only one tax, the corporate income tax, appeared to meet the previously outlined characteristics. This tax could be imposed solely upon one of the classes relieved--the corporations. However, there would still be classes which would not be taxed, even though they were relieved. These would be the partnerships, limited partnerships, professional associations, and professional service corporations. The taxing of these classes will be considered later.

The corporate income tax generated \$249,357,000 or 6.98 per cent of the total state collected revenue in 1973, and \$277,144,000 or 6.96 per cent of the total state revenue collected in 1974 in Illinois.¹¹ The Illinois corporate income tax is levied at a flat rate of 4 per cent

¹¹State of Illinois, Department of Revenue, "Schedule of Revenue Collected and Remitted," Memorandum, June 1973 and June 1974. (Typewritten.)

and generates approximately \$62,000,000 (1973) for each per cent of tax. If legislation were adopted that would shift the entire burden of replacement for all units of local government and school districts to the corporate income tax, this would result in that tax having a rate of approximately 11 per cent (computed using 1973 data, the last year for which complete data were available). It would be possible to generate the total dollars of revenue needed, but only at a very high tax rate. Further, there is the annual rate of new revenue to be considered. Illinois corporate income tax collections have grown at an average rate of approximately 13.25 per cent per year for the time period 1973-1975. This means that the tax at 11 per cent would be an adequate source of new revenue to fulfill the previously listed requirements.

The corporate income tax meets the requirements that it be statewide; also that it not be an ad valorem real estate tax. Being a state levied and collected tax is an advantage in the amount of the tax yield. "A State encompasses population and economic activity within an area large enough to obtain economies of scale in tax administration."¹² Since the tax is presently being collected, one does not have to consider higher collection costs or

¹²Advisory Commission, Educational Finance, pp. 3-6.

the development of a new division of the state revenue system. The state would simply process more dollars through the same channels. Therefore, administrative feasibility is not a serious concern.

Unfortunately, the corporate income tax does not have a high degree of equity:

... if the tax falls on the equity shareholders of the corporation, the individual bearing the tax may be in a high-income or low-income group. There is no necessary connection between the amount of common stock owned and the place in the income scale, but all individuals are subjected to the same rate of tax in this part of the fiscal system.¹³

The impact of the tax, as was previously noted, would be on those classes relieved of the burden of paying the tax on corporate personal property. The incidence of the tax, however, is a little more difficult to determine. There is some disagreement as to who pays the corporate income tax. Some of the tax is probably shifted forward and backward,¹⁴ and some of it is taken from returns to capital. However, the major share is probably a charge against capital and management.¹⁵

¹³James M. Buchanan and Marilyn R. Flowers, The Public Finances An Introductory Textbook (Homewood, Ill.: Richard D. Irwin, Inc., 1975), p. 286.

¹⁴Advisory Commission, Educational Finance, pp. 2-17.

¹⁵Tax Institute of America, Proceedings of Symposium, November 5-6, 1970 (Lexington, Mass.: D.C. Heath Co., 1972), p. 42.

A corporate income tax is fairly elastic when viewed in relation to other taxes. Harris, Netzer, and the Planning Division of Arizona all reported elasticities of approximately one for the corporate income tax.¹⁶ Peck reported an elasticity somewhat higher than this.¹⁷

Effect on competition cannot be as easily assessed as can some of the other effects. If one accepts that industry is concerned with the tax differential and not component taxes, then the change will be negligible when industry is viewed as a whole. However, there may be some change in the "mix" of types of business which are found within the state.

High city property tax rates on inventories encourage erection of warehouses outside the city not only by manufacturers but also by merchandisers, such as supermarket operators. Even minor differences in tax procedure may be used to advantage by business.¹⁸

Industries which are characterized by large inventories and low profits would be attracted to the state. However, industries which are characterized by small inventories and high profits could find themselves in a relatively less competitive position than they had been previously.

¹⁶Advisory Commission, Educational Finance, pp. 2-39.

¹⁷Ibid., pp. 2-40.

¹⁸Advisory Commission, Industrial Location, p. 61.

The corporate income tax would provide a viable alternative tax source for the replacement of the lost revenue. However, to replace all the revenue in this manner might present rates which would cause many firms to migrate to other states. Therefore, the corporate income tax offers only a partial solution in the search for an alternative tax.

New Taxes

Since all classes which were relieved of paying the personal property tax would not be providing replacement revenue through the corporate income tax, some other new tax(es) must be found which would tax those classes relieved which were not corporations. One obvious answer would be to present legislation which would require that partnerships, limited partnerships, and professional associations be taxed in the same manner and at the same rate as corporations, instead of allowing the partnership to file an informational return and taxing the members at the individual income tax rate. This one change could generate substantial amounts of new revenue. The dollar value of revenue which would be generated by a 4 per cent net income tax on partnerships in 1973 was estimated to be

around 44.5 million dollars.¹⁹ This would mean that a tax on partnerships would generate about 11 million dollars for each per cent of tax.

The tax on partnerships satisfies the constitutional limitations that the tax must be on those classes relieved of the burden of paying the tax, not be an ad valorem tax on real estate, and must be statewide in nature. It will be subject to the costs of litigation and the costs of developing an administrative structure to oversee the collection of the tax. Substantial amounts of monies could be saved if the tax could be administered in a manner parallel to the corporate income tax.

The shifting, elasticity, and regressive characteristics of the tax on partnerships would be more similar to those of the corporation if the tax was imposed in a manner parallel to the corporate income tax. However, if the tax is imposed in a manner which is parallel to the individual income tax, then the effects would be more similar to those of the individual income tax.

The discussion in the section on the corporate income tax reviewed the arguments pertaining to industry

¹⁹Carlton P. Morin and others, Replacement Revenue Sources (Chicago: Illinois State Chamber of Commerce, 1973), p. 33.

location and tax loads. In order to remain consistent in the argument throughout, the assumption will be made that a replacement tax will not have any effect on the total business community's decision for location, since there is no way to assess this in advance.

The income tax on partnerships, as a business unit, seems to be imperative given the constitutional limitation on replacement revenue. This tax would generate substantial amounts of new revenue even though there would be start-up and litigation costs. The method of shifting, regressivity, and amount of elasticity would depend largely upon the manner in which the tax is imposed.

Another possible source of new revenue would be the value-added tax. This tax has been used successfully in the Common Market countries. In 1953, the Michigan legislature implemented the Michigan business activities tax, the first tax implemented in the United States using the value-added concept. It served as a tax in Michigan until 1967 when the legislature repealed the tax to implement a comprehensive personal and corporate income tax structure.²⁰ Regardless of the type of tax, gross

²⁰Advisory Commission on Intergovernmental Relations, The Value-Added Tax and Alternative Sources of Federal Revenue, Report No. M-78 (Washington, D.C.: Government Printing Office, 1973), p. 5.

product (no capital expenditure deduction allowed), income-type (capital expenditure deduction allowed through depreciation), or consumption variant (capital expenditure allowed in year of purchase), the revenue generating capability of the tax is substantial.

Had we imposed a gross product value-added tax in Illinois against manufacturing only for the year 1971, with a rate of 1 per cent, it would have generated \$221,960,000 or approximately 22 per cent of the amount of revenue generated by the state income tax for the same year. These figures were determined in the following manner.

The value-added by manufacture data for corporate and partnership forms of legal organization throughout the United States, from the 1967 census of manufacturing were summed and divided by the value-added by manufacture for all establishments.²¹ The resulting 97.39 per cent was assumed to be the same per cent of corporate and partnership forms of legal organization to all establishments found in Illinois. Therefore, this per cent was multiplied by the value-added in manufacturing data found in the 1973 Edition, Illinois State and Regional Economics Data

²¹U.S., Department of Commerce; Bureau of the Census, Census of Manufacturers, vol. 1, Summary and Subject Statistics (Washington, D.C.: U.S. Government Printing Office, 1971), Table 1, pp. 3-4.

Book to receive the value added by corporations and partnerships.²² The same percentage was used with the 1972 Edition, Illinois State and Regional Economics Data.²³

The revenue which could have been generated in 1969 with a 1 per cent rate would have been \$220,520,000. Therefore, it appears that a gross product value-added tax would generate around \$220,000,000 for each per cent of rate in most years. Since an income-type or consumption value-added tax would have deductions for capital expenditures, the revenue generated by either of them would be somewhat less.

The value-added tax satisfied the limitations that it must be statewide, that it cannot be an ad valorem real estate tax, and that it must be imposed upon the same persons who benefited from elimination of the personal property tax. It will, however, be subject to the costs of developing an administrative structure to assess, collect, and distribute the tax revenue. Also, the tax

²²Illinois, Department of Business and Economic Development, "Statewide Summary Manufacturing Value Added--1954, 1958, 1963, 1967, 1971," 1973 Edition, Illinois State and Regional Economics Data Book (Springfield: Department of Business and Economic Development, n.d.), p. 17.

²³Illinois, Department of Business and Economic Development, 1972 Edition, Illinois State and Regional Economics Data Book (Springfield: Department of Business and Economic Development, n.d.).

will be subject to "definitional uncertainties that could result in litigation."²⁴

The value-added tax may be shifted forward rather easily since the additional cost of the tax is added into the sale price of the goods. However, this is an advantage over the sales tax since the tax is collected at all levels of manufacture and distribution and not just at the consumer. This assures that Illinois will receive its share of the tax regardless of the final destination of the goods. Further, since the tax could be imposed only on the specific classes relieved of paying the personal property tax, it would tax only those classes relieved.

Since there has not been too much experience with the value-added tax in the United States, its elasticity in relation to other taxes is not well documented. The Michigan Business Activities Tax is reported to:

. . . . An examination of the change in the BAT collections relative to changes in Michigan personal income also indicated that the tax was more than proportionately responsive to economic growth; as a result, it introduced an important element of income elasticity into the existing unresponsive Michigan revenue structure. On the other hand, the BAT was less responsive to changes in economic activity (that is, state personal income) than business net income tax measures.²⁵

²⁴Advisory Commission, Value-Added Tax, p. 3.

²⁵Robert D. Ebel, The Michigan Business Activities Tax (East Lansing, Mich.: M.S.U. Business Studies, 1972), p. 154.

This narrative does not allow for a clear definition of the elasticity, but it would allow for an approximation of the elasticity at a little above one. That means without any change in the tax rate, revenue would increase or decrease slightly faster than corresponding changes in the economy.

The regressive characteristics of the value-added tax are dependent upon the type of value-added tax used. The consumption variant, which seems to be the most popular because of the treatment given capital expenditures and the ease of administration when compared to the income-type, is somewhat regressive.²⁶ One method of reducing the characteristic toward regressivity is to allow a tax credit on the income tax for those items of necessity, such as medicine or groceries. Another method is to simply allow the exemption of those necessary items from the value-added tax. However, attempts to decrease the base will result in decreased neutrality and complicate administration a great deal.

The discussion in the section on the corporate income tax reviewed the arguments pertaining to industry location and tax loads. In order to remain consistent in the argument throughout, the assumption will be made that a replacement tax will not have any effect on the total

²⁶ Advisory Commission, Value-Added Tax, p. 2.

industrial community's decision for plant location. However, as discussed in the corporate income tax, the effect on specific industries will not be the same throughout the state. New industries will be unfavorably affected by this tax more than they will be by the corporate income tax because they will not be able to reinvest the profits into the organization in the early stages.²⁷ Further, the value-added tax does not favor high labor industries over high capital or inventory industries.²⁸

The value-added tax is a viable alternative source of new revenue which meets the limitations of the constitution. It would generate approximately \$220,000,000 of revenue for each per cent of gross product tax, or \$208,000,000 of revenue for each per cent of consumption variant tax, in 1971. This revenue would increase automatically with growth and inflation. The tax may be regressive, but if it is, exemptions and tax credits could reduce the degree of regressivity. This tax has an elasticity of slightly above one and is administratively feasible, even though there would be start-up and litigation costs. Finally, the tax would be imposed on those

²⁷Ibid., p. 8.

²⁸Ibid.

classes relieved, but it might be shifted either forward or backward and in a somewhat different pattern than the personal property tax.

The last tax to be considered would be a poll tax. The poll tax was once widely used in the United States, but it fell into disfavor after it became a tool for disenfranchising voters in some states. A one dollar poll tax would have generated \$1,200,000 in 1972 if collected from manufacturing establishments only.²⁹ The poll tax would be assessed against the employer, not the employee.

This would be administratively feasible because of the employment records which are required to be kept by the U.S. Department of Labor. There would be start-up and litigation costs involved.

This tax would have some elasticity, but its elasticity would not be nearly as high as the other two taxes previously described. Its revenue would grow more slowly than the economy. The requirements that the tax be statewide in nature, be solely on those classes relieved, and be non-ad valorem real estate could all be met.

²⁹This assumes 96.7 per cent of the manufacturing employees were employed at corporations, which was calculated from the 1967 Census of Manufacturers, Table 1, All Employees column, pp. 3-4, and multiplied times 1,269,500 employees, found in 1973 Edition, Illinois State and Regional Economic Data Book, p. 24, at a rate of one dollar per person employed.

However, this tax, by itself, would not produce sufficient revenue without charging rates of approximately \$560 per worker per year. This might be considered prohibitive because it would discourage firms from adding additional workers. The impact of the tax would be on the employer, but it probably would be, at least partially, shifted to the employee.

The main argument for the poll tax is that it could act as a balance for the other taxes which have been more restrictive on capital intensive industries. However, much care must be used in the intensity of taxation to assure that labor intensive industries are not driven from the state.

Four taxes have been suggested in the preceding sections of this chapter. In each case their strengths and weaknesses have been outlined. The choice of which of these taxes, or in what combination any of these taxes, are to be used and at what rate, is the responsibility of the legislature. There is one point of caution, however. States which have received the reputation of being high tax states have had difficulty in attracting new industry. Therefore, the purpose of these suggestions is only to provide alternative sources of tax revenue for replacement of the lost revenue and not to provide new sources for taxation. The legislature should not be afraid to use

those combinations of alternatives that will maintain Illinois' relative position with respect to tax differential, but it should be very hesitant to raise taxes so as to change this differential.

CHAPTER VI

ALTERNATIVE METHODS OF ALLOCATING THE REPLACEMENT REVENUE

After the alternative tax(es) has been collected, some method must be devised to allocate the revenue, in terms of the two constitutional limitations, as stated: ". . . shall replace all revenue lost by units of local government and school districts . . . ," and ". . . other than ad valorem taxes on real estate. . . ." ¹ This section of the constitution provides no design parameters for the allocation system. Instead, the first phrase and the second phrase give rise to two separate interpretations for each phrase.

One interpretation of the first phrase is that the drafters intended that each dollar of revenue lost to a unit of local government or school district would have to be replaced with a dollar of revenue earmarked for that unit of local government or school district. Another interpretation is that there would be Y dollars of revenue lost to all units of local government and school districts in the state; each would receive a share, but the share

¹Illinois, Constitution, art IX, sec. 5 (c).

would not necessarily equal, in dollars of actual revenue, the amount of revenue lost to that particular unit of local government or school district. The first interpretation would call for direct replacement of revenue, whereas the second interpretation could use some method of allocation other than absolute dollars lost by each unit of local government or school district. After the discussion in Chapter II, it appears that either interpretation of this first phrase would meet the limitations outlined in the constitution.

There can be two interpretations made of the second phrase. One interpretation is that this is a limitation solely on the replacement tax, so that the replacement tax would not be ad valorem real estate. Another interpretation is that this phrase places a limitation on the allocation system. Since units of local government and school districts receive their funding from two separate components of the property tax base, real property and personal property, a removal of one component of the tax base would necessarily shift the total burden of providing tax revenue to the other component of the tax base. Unless some replacement revenue were provided, the abolition of the personal property tax would necessarily shift all locally levied taxes to ad valorem real estate taxes. If the replacement revenue provided by the state is not equal to or

greater than the value of the revenue lost from the abolition of the personal property tax, the unreplaced portion automatically becomes a tax on ad valorem real estate, unless the taxing body is at its statutory tax rate maximum. If the interpretation that the phrase applies only to the replacement tax is accepted, then either interpretation of the first phrase is within the constitutional limitations. However, if the interpretation which places a limitation on the allocation system is accepted, then the only interpretation of the first phrase which would be acceptable would be the direct replacement interpretation, unless a minimum level is placed on the amount of grant that a taxing body could receive; with the grant level being placed high enough to insure that the replacement revenue would be greater than or equal to the amount of revenue lost because of the abolition of the ad valorem personal property tax.

Schools are presently funded in part by locally collected tax funds, and in part by a grant-in-aid formula, which attempts to equalize expenditures per student. The school district will be considered in two different ways. First, the school district will be considered as a component subsystem of the county taxing body, and then as an autonomous unit of local government.

Additional points of discussion will be found in the purposes outlined in Chapter I:

18. Develop alternative models which will deliver the appropriate amount of revenue to replace the revenue for operations lost to units of local government and school districts.

19. Determine if the present grant-in-aid formulas would be able to be used to replace the revenues lost due to the abolition of the personal property tax, or if they would need legislative modification.

20. Develop alternative models which will replace the revenue lost to the bond and interest fund of the local school district as a result of the abolition of the personal property tax.

21. Develop alternative models to insure that individual school districts will not have their debt limitation reduced as a result of the loss of the assessed valuation from personal property.

22. Develop alternative models which deliver the appropriate amount of collected revenue if the assessed valuation of an individual school district changes after January 1, 1979.

One question which needs to be answered is, "Is there a present allocation system or systems in use, by the state, which would fulfill the requirements previously outlined?"

Present Allocation Systems

There are three systems utilized by the state government to return monies to units of local government (not to include school districts). In fiscal 1974, \$207,997,000 in motor fuel tax monies, \$103,000,000 in income tax monies,² and \$294,235,000 in state sales tax monies³ were distributed to counties, townships, and municipalities. The motor fuel tax monies and the income tax monies were distributed on the basis of population. The sales tax monies were distributed on the basis of sales within the geographical area.

Under the first interpretation, requiring direct replacement, none of the present allocation systems would be applicable. Under the second interpretation, using population as the method of distribution, there is a method which would be appropriate. If the second interpretation were adopted, Cook County would have had approximately 55 per cent⁴ of the personal property equalized

²Illinois, Comptroller, Illinois Annual Report, Fiscal Year 1974, July 1, 1973-June 30, 1974, p. 18.

³Ibid., pp. 23-24.

⁴Illinois, Department of Local Government Affairs, Office of Financial Affairs, Illinois Property Tax Statistics 1973 (Springfield: Department of Local Government Affairs, 1973), calculated from data on p. 170.

assessed valuation in the state, and approximately 49 per cent⁵ of the population in 1973. Downstate Illinois had approximately 45 per cent of the personal property equalized assessed valuation and approximately 51 per cent of the population in the state for 1973. If the allocation of replacement revenue would have been made on the basis of population, the 6 per cent difference in percentages in 1973 would have resulted in an underallocation of approximately \$26,000,000 or approximately 1.4 per cent of the total local tax extensions in Cook County.⁶ Unless there was some minimum grant or save-harmless clause imposed on the allocation system, this could render the allocation system unconstitutional, since the \$26,000,000 would be shifted to the real estate tax base. If either the minimum grant provision or the save-harmless clause were adopted then the distribution of replacement revenue on the basis of population would be a viable alternative.

Proposed Allocation Methods

If the direct replacement limitation and the limitation on not shifting the tax to real estate, outlined

⁵Illinois, Department of Business and Economic Development, Illinois State and Regional Economic Data Book, 1973 Edition (Springfield: Department of Business and Economic Development, 1973), calculated from data on p. 82.

⁶Illinois, Tax Statistics 1973, p. 7.

in the constitution, are followed, then the state would have to make a dollar-for-dollar replacement of revenue lost. One method of accomplishing this would be to assess all personal property on January 1, 1979, have all of the taxing bodies submit levies on the total equalized assessed valuation including the personal property, compute the tax bills without the personal property equalized assessed valuation, and then submit a bill to the state treasurer for the difference between the amount to be collected under the levies submitted which contained the personal property equalized assessed valuation and the amount computed on the bills without the personal property equalized assessed valuation. The state would not be held liable for the difference between extensions and collections, only for the difference in extensions. The amount of revenue lost would be established at this time, and the state would make a continuing appropriation for that amount to each county. The counties would then distribute the monies in percentages equal to the per cent of the personal property equalized assessed valuation in each taxing body's total equalized assessed valuation on January 1, 1979.

A variation of the preceding method would be to simply average the personal property assessed valuation of each taxing body for the years 1977, 1978, and 1979, as filed at the County Clerk's office. This method should

eliminate business cyclical fluctuations in personal property equalized assessed valuations. Either of the preceding two methods may be applicable; the legislature and the courts would determine which of the two methods was "fairest."

Neither of the preceding systems makes provisions for the distribution of the growth revenue. One alternative would be to refuse to distribute this revenue; growth revenue which was generated by the alternative tax(es) would be placed in the state general fund to be appropriated as needed. Another alternative would be to distribute the growth revenue back to the counties in a percentage equal to the per cent of the total replacement revenue which the county received.

If the interpretation that the total dollars lost must be replaced to units of local government within the state, and the interpretation that the limitation on real estate tax applies only to the replacement tax, then the state would simply have to distribute as many dollars of replacement revenue to all counties as was lost in all counties.⁷ One method of accomplishing this, on the basis of population, has already been discussed. Another method

⁷Please note that this would insure for all time that taxpayers in areas of present industrial concentration would receive favored tax status through lower tax rates.

which may be utilized is a more egalitarian concept utilized by the federal government in the revenue sharing program. Under this method, distribution of tax revenue is accomplished through the use of effort and ability criteria. Effort is measured by the General Tax Effort Factor (GTEF), and ability is measured by the Relative Income Factor (RIF). These terms are defined in the following manner:

$$\text{GTEF} = \text{General Tax Effort Factor} = \frac{\text{net taxes collected (state and local)}}{\text{aggregate personal income}}$$

$$\text{RIF} = \text{Relative Income Factor} = \frac{\text{per capita income of the United States}}{\text{per capita income of the state}} \quad 8$$

These factors are then used, in conjunction with factors for urban population and total population, in a three-factor and a five-factor formula to determine the amount of revenue sharing money allocated to a state. The local government formula is somewhat similar. The formula has had mixed results in its ability to redistribute wealth.⁹ However,

⁸James M. Buchanan and Marilyn R. Flowers, The Public Finances An Introductory Textbook (Homewood, Ill.: Richard D. Irwin, Inc., 1975), p. 464.

⁹Ibid., p. 468.

this formula does attempt to recognize the inequities, within a geographical area, of the ability of a local taxpayer to support some minimum level of services. States with low ability and high effort receive more federal revenue sharing monies than states with high ability and low effort. It also may be appropriate to use this concept to allocate the personal property replacement revenues. If this concept or the population method of revenue allocation is utilized, the growth revenue could be easily distributed along with the regular appropriation by the same formula.

If the interpretation of the constitution that any formula could be used which provided total dollar replacement for all units of local government, and the interpretation that the tax could not be ad valorem real estate was a limitation on the allocation method, then the determination of some minimum replacement amount for each unit of local government and school district would be necessary. This could be accomplished by any method, including the one previously described, which would determine the amount of monies lost on January 1, 1979. The replacement could be accomplished by a save-harmless clause which would guarantee units of local government and school districts the amount of replacement monies equal to the amount of monies lost on January 1, 1979. Another method would be to utilize an equalization grant which had a minimum amount

guaranteed to each unit of local government and school district, the minimum amount being the amount lost on January 1, 1979. Finally, a third alternative would be to allow a choice of the previously described flat grant and the equalization formula. Other systems may be workable, but these seem to comply with the constitution.

Revenue Allocation as it Affects Schools

School districts (1975-1976), statewide, receive approximately 45 per cent of their funding from their local tax base (primarily property equalized assessed valuation), approximately 49 per cent of their funding from the state (through the grant-in-aid formula), and the remainder from federal sources. The local school district has legal limitations placed upon the tax rate in each fund which it cannot surpass. Some of these legal limitations on the tax rate can be altered by the successful passing of a general referendum to raise the rate. Other tax rates can be altered only through the actions of the legislature. Since the tax rate is determined by dividing the dollars levied by the equalized assessed valuation of the school district, a decrease in the equalized assessed valuation would result in a higher tax rate, assuming the tax levy was held constant. If the tax rates were at their legal maximums before there was a decrease in the equalized

assessed valuation, or if there had been an unsuccessful referendum to raise the rates, then the school district would not receive as much revenue from the local sources as they had received before the tax base was reduced. It would require a higher tax rate to get the same number of dollars when the district's assessed valuation was reduced than it would have required before the district's assessed valuation was reduced.

The bond and interest fund has a statutory debt limitation of 6 per cent of the assessed valuation of districts with grades K-8 or 9-12 and a 12 per cent limitation for districts with grades K-12.¹⁰ Districts which are presently close to this debt limitation would not be able to call for a referendum to expand educational facilities, in the form of new buildings, if the equalized assessed valuation of the school district were decreased. A statute which would simply raise the debt limitation of the school district in the bond and interest fund would result in replacing the revenue lost with a tax on ad valorem real estate, the only tax the school district would then have available to them.

¹⁰Lee O. Garber and Ben C. Hubbard, Law, Finance, and the Teacher in Illinois (Danville, Ill.: The Interstate Printers and Publishers, Inc., 1975), p. 177.

Some of the districts would have the money lost for the operation of the school districts replaced through the state grant-in-aid formula. (For more discussion of this see Chapter III.) However, some school districts, which are "wealthy" in terms of equalized assessed valuation per TWADA pupil, would not lose sufficient equalized assessed valuation to decrease the equalized assessed valuation per TWADA pupil to qualify for increased aid under the state grant-in-aid formula. These districts would have to raise their local tax rates to receive the same dollars in revenue, which would be replacing the revenue lost with a tax on ad valorem real estate, unless a minimum grant was established to replace the revenue lost.

Since the Illinois Constitution of 1970 was adopted, the only debt limitations which have been imposed upon school districts have been statutory. Therefore, as previously discussed under the section which dealt with the bond and interest fund, any action which will result in the decrease of the equalized assessed valuation of the school district will automatically result in a decreased limitation. If the debt limitation is raised and additional revenue is not provided from some source other than the local tax base, the replacement tax will be ad valorem real estate as a function of the allocation system.

The last purpose mentioned in the opening paragraphs of this chapter was to:

22. Develop alternative models which deliver the appropriate amount of collected revenue if the assessed valuation of an individual school district changes after January 1, 1979.

It appears that this will not be possible unless the present assessment method, with all its inherent problems and weaknesses, is continued. After January 1, 1979, if the constitution is complied with, there will be no records of the personal property equalized assessed valuation of a school district. Therefore, it would be impossible to determine if a shift had occurred which should result in a change in the replacement revenue the school district should receive. If this purpose were to be achieved, one alternative method might be to have a five- or ten-year reassessment of personal property within units of local government and school districts to correct any percentage changes which had occurred between the time of the assessment and January 1, 1979 relative to other units of local government and school districts within the state. If a minimum grant, frozen value of revenue allocation system were adopted, this reassessment would probably be necessary.

Summary of Alternative
Allocation Methods

The following alternative allocation methods would meet the requirements of the limitation set forth in the Illinois Constitution of 1970, article IX, section 5 (c): ". . . shall replace all revenue lost by units of local government and school districts . . . ," and the limitation that the taxes be ". . . other than ad valorem taxes on real estate. . . ."

1. Prepare a formula which would provide for the direct replacement of all monies lost by units of local government and school districts on January 1, 1979. The amount must match, dollar for dollar, the amount of revenue lost.

2. Devise an equalization type of formula, with a minimum grant specified for each unit of local government and school district. The minimum grant could be in the form of a save-harmless clause, or in terms of an actual dollar value, as long as that dollar value was not less than the amount of revenue lost on January 1, 1979.

The following alternative allocation methods would meet the requirement of the limitation ". . . shall replace all revenue lost by units of local government and school districts . . . ," and the interpretation that the second phrase applies only to the replacement tax, and not to the

allocation system.

3. Draft a formula which would provide for the distribution of replacement revenue on the basis of population.

4. Distribute replacement revenue on the basis of a formula which allowed for the redistribution of wealth, similar to the revenue sharing formula.

The following alternative allocation methods would meet the requirement of the interpretation of the constitution that any method could be used which provided total dollar replacement for all units of local government, and the interpretation that the tax could not be ad valorem real estate was a limitation on the allocation method.

5. Introduce a formula which provides for the allocation of the replacement revenue through a flat grant with a save-harmless clause.

6. Allocate the replacement revenue through an equalization formula, with a minimum grant for each unit of local government and school district.

7. A choice of alternatives 5 and 6, as long as the amount received was equal to or greater than the amount lost on January 1, 1979.

The allocation of the growth revenue would not be a matter of concern under any system. The growth revenue would probably be outside the limitations of the

constitution.

The following alternative allocation methods would meet the requirements of the limitation that all revenue lost shall be replaced to school districts, and the limitation that the replacement should not be through an ad valorem tax on real estate.

8. Design a formula with a minimum grant program which provided for direct replacement of each dollar lost because of decreased equalized assessed valuation.

9. Use the present state grant-in-aid formula, with a larger flat grant, and the addition of a save-harmless clause.

10. Implementation of one of the previous two.

The following alternative allocation method would meet the requirement of the replacement limitation, and the interpretation that the second phrase applies only to the replacement tax and not to the allocation system.

11. Replacement of the revenue through the present grant-in-aid system.

The following alternative allocation method would meet the requirement of the replacement limitation, and the interpretation that the second phrase applies only to the allocation method.

12. Develop a formula which provides for the allocation of the replacement revenue through the use of

the present grant-in-aid system with a larger flat grant, and the addition of the save-harmless clause.

It appears that whatever allocation method is used, larger equalization grants will be necessary for units of local government and school districts to eliminate the shift of indebtedness to the ad valorem real estate tax base. If a minimum grant method of allocation is used, it would be appropriate to have a five- or ten-year reassessment of personal property so that readjustments could be made because of shifts in plant location.

CHAPTER VII

CONCLUSIONS AND RECOMMENDATIONS

On or before January 1, 1979, the Illinois legislature must make a decision; that is, whether or not to remove the ad valorem tax on personal property. It was the problem of this study to determine the size and nature of the fiscal reform that the legislature must bring about in order to fulfill the requirements of Article IX, Section 5 of the Illinois Constitution of 1970; with specific attention being given to the effect of the reform upon public school districts. This was accomplished by proposing and investigating twenty-three purposes. The purposes and the digested results were as follows:

1. Determine what the writers of the constitution intended in Article IX, Section 5.

It would appear that the drafters of this section of the constitution had two distinct purposes in mind. First, they wanted to abolish the ad valorem tax on personal property. Second, they wanted to insure that this abolition would neither bankrupt units of local government and school districts nor result in the shifting of the tax burden from business and industry to the individual taxpayer. However, they did not want to be too directive to

the legislature, and saddle them with a revenue article which would be unduly restrictive.

2. Determine the effects on local school districts if the personal property tax had been abolished on January 1, 1973.

If the tax had been replaced, and the present grant-in-aid formula had been fully funded with no changes, the state would have had to increase the state contribution to public schools from 1.391 billion dollars to 1.576 billion dollars. The local contribution to public schools would have decreased from 1.457 billion dollars to 1.237 billion dollars. The total dollars to be expended for public schools would drop from 2.848 billion dollars to 2.813 billion dollars, for a net loss of 35 million dollars.

3. Determine the effects on local school districts if House Bill 990 had been fully implemented on January 1, 1973.

If this had taken place, and the present grant-in-aid formula had been fully funded, the state would have been able to decrease the state contribution to public schools from 1.390 billion dollars to 1.384 billion dollars. The local contribution to public schools would have increased from 1.457 billion dollars to 1.465 billion dollars. The total dollars to be expended for public schools would increase from 2.848 billion dollars to 2.850

billion dollars for a net increase of 2 million dollars.

4. Determine the effects on local school districts if the personal property tax had been abolished on January 1, 1973 and House Bill 990 had been fully implemented on January 1, 1973.

The combination effect of both actions, with the present grant-in-aid formula fully funded, would have resulted in the state increasing the state contribution to education from 1.390 billion dollars to 1.570 billion dollars. The local contribution to education would have decreased from 1.457 billion dollars to 1.245 billion dollars. The total dollars to be expended for education would have declined from 2.848 billion dollars to 2.815 billion dollars, for a net loss of 33 million dollars.

5. Determine the effect of the loss of the personal property assessed valuation on the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975.

Statewide, there would be no significant change in the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975. However, there would be considerable effect upon the rankings of individual school districts.

6. Determine the effect of House Bill 990 on the ranking of school districts on the basis of assessed

valuation per TWADA pupil for FY 1975.

Statewide, there would be no significant change in the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975. However, there would be considerable effect upon the rankings of individual school districts.

7. Determine the effect of the loss of the personal property assessed valuation and House Bill 990 on the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975.

Statewide, there would be no significant change in the ranking of school districts on the basis of assessed valuation per TWADA pupil for FY 1975. However, there would be considerable effect upon the rankings of individual school districts.

8. Determine the effect that the loss of the personal property assessed valuation would have on the state contribution to education through the grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.

Generally speaking, the removal of the personal property assessed valuation results in greater fiscal neutrality for elementary and high school districts. Unit districts come so close to achieving fiscal neutrality that the standard methods of analysis become inconclusive.

Removal of the personal property assessed valuation also results in decreased variance of expenditures between school districts. However, if the legislature should adopt some method of replacing the revenue which did not utilize the present grant-in-aid system, then the effects upon permissible variance and fiscal neutrality could be markedly different.

9. Determine the effect that House Bill 990 would have on the state contribution to education through the grant-in-aid formula in FY 1975 in terms of achievement of fiscal neutrality and permissible variance.

Generally speaking, House Bill 990 decreases fiscal neutrality in elementary and high school districts. However, it does seem to increase fiscal neutrality in the unit districts. In all cases, the effects of House Bill 990 resulted in increased variation in expenditures per TWADA pupil. In the case of the elementary school and high school districts, this variation seemed to occur all along the distribution. In the unit districts, however, this variation only occurred at the top end of the distribution.

10. Determine the effect that the loss of the personal property assessed valuation and House Bill 990 would have on the state contribution to education through the state grant-in-aid formula in FY 1975 in terms of

achievement of fiscal neutrality and permissible variance.

The effect of the removal of the personal property assessed valuation is so strong that the combination effect is a decrease in permissible variance, and an increase in fiscal neutrality. The only exception is the unit district. The unit districts are so close to fiscal neutrality, the results appear inconclusive.

11. Determine the effect that loss of the personal property assessed valuation will have upon school districts in each of the six regions, defined by the Illinois Office of Education.

Generally speaking, regions 1 and 2 were the most affected in terms of decreased assessed valuation per TWADA pupil. However, in terms of expenditure per TWADA pupil, regions 1 and 4 were the most affected. Probably the most significant fact is the range of expenditure per TWADA pupil which exists between regions within the state.

12. Determine the effect that House Bill 990 will have upon school districts in each of the six regions, defined by the Illinois Office of Education.

Regions 2, 3, and 4 all have slight decreases in the per cent of local contribution, indicating that they have been overassessed. Regions 5 and 6 have increases in the per cent of local contribution, indicating they have been underassessed. Region 1 stayed the same. Under House

Bill 990, as written, no taxing body can lose assessed valuation. The changes made here were only done for comparison purposes.

13. Determine the effect that the loss of the personal property assessed valuation and House Bill 990 will have upon school districts in each of the six regions, defined by the Illinois Office of Education.

The combination effect results in a decreased percentage of local contribution in regions 1 through 4, and a greater percentage of state aid. Regions 5 and 6 will have an increase in the percentage of local contribution and a decrease in the percentage of state aid. However, region 6 is the only region which will lose any actual dollars in state aid.

14. Estimate the amount of funds which the constitution says must be replaced to all units of local government and school districts on January 1, 1979, by the state, as a result of the proposed abolition.

On January 1, 1979, the state should be prepared to replace approximately 680 million dollars of lost revenue to units of local government and school districts if present expenditure trends continue. Of this amount, between 390 million dollars and 470 million dollars must be replaced to the school districts.

15. Determine the limitations imposed upon the legislature by the constitution, with respect to alternative replacement tax sources.

An alternative replacement tax(es) must meet four limitations imposed by the constitution. First, the tax must be statewide in nature. Second, the tax must be a tax other than one which is an ad valorem tax on real estate. Third, it must be solely on those classes relieved of the burden of the present tax. Finally, it must be sufficient to replace all revenue lost to units of local government and school districts.

16. Develop alternative tax sources which are consistent with the limitations imposed in the Illinois constitution.

Four alternative taxes which seem to be consistent with limitations of the constitution are; a higher rated corporate income tax, a new income tax on partnerships, a value-added tax, and a poll tax on employers.

17. Determine what the effect of these alternative taxes would be on the competitive relationship of Illinois businesses in the marketplace.

If the premise is accepted that industry is interested only in the total tax bill and not in the combination of the taxes, then it should have no effect at all. However, if the legislature increases the total tax bill to

industry to a point that this tax bill is larger than in neighboring states, then it could have a serious effect upon Illinois' ability to attract and hold industry.

18. Develop alternative models which will deliver the appropriate amount of revenue to replace the revenue for operations lost to units of local government and school districts.

If the courts determine that the revenue replacement must be on the basis of dollar-for-dollar replacement, then the number of alternative replacement methods is severely limited. Also, it will cause present inequities in school funding to continue. However, if the courts decide that the revenue may be replaced on the basis that all dollars lost to units of local government and school districts within the state must be replaced, but not necessarily in the same percentage or amount as was lost from one individual unit of local government or school district, then a method could be utilized which would reduce the present inequities in school funding, which are detailed in Chapter III.

19. Determine if the present grant-in-aid formulas would be able to be used to replace the revenues lost due to the abolition of the personal property tax, or if they would need legislative modification.

✓ School districts which have assessed valuations higher than the state guarantee under the new grant-in-aid

formula will not have that portion of lost revenue replaced which is a result of the excess assessed valuation above the state guarantee. If the courts determine that there must be a dollar replaced for each dollar lost by an individual school district, then there will need to be some form of save-harmless legislation modification introduced. School districts which have tax rates which are higher than the tax rates needed to qualify for the maximum state aid will also be faced with the same problem of unreplaced revenue which was presented by high assessed valuations, with the same end result.

20. Develop alternative models which will replace the revenue lost to the bond and interest fund of the local school district as a result of the abolition of the personal property tax.

Replacement of the revenue lost to the bond and interest fund must be made through some method other than raising the statutory debt limitation on the fund. To do this would simply shift the replacement tax from a tax on personal property to the ad valorem tax on real estate, in apparent violation of the limitations set forth in the constitution. Therefore, it appears that the replacement revenue must come from some new source, such as the state government, perhaps through the Capital Development Board.

21. Develop alternative models to insure that individual school districts will not have their debt limitation reduced as a result of the loss of the assessed valuation from personal property.

If the limitations of the constitution are to be followed, then it appears that this may not be possible at this time because of the method of combining personal property assessed valuation and real property assessed valuation to determine the debt limitation of the school districts. To decrease the assessed valuation of the school district is to decrease its debt limitation; to increase the statutory debt limitation after the decrease is to shift taxes from personal property assessed valuation to ad valorem real estate.

22. Develop alternative models which deliver the appropriate amount of collected revenue if the assessed valuation of an individual school district changes after January 1, 1979.

Since there will be no assessment of personal property after January 1, 1979, it would be impossible to determine if the assessed valuation of the school district changed, due to the gain or loss of personal property. If this is to be accomplished, however, then some method, such as a five- or ten-year reassessment of personal property, would need to be implemented to determine exactly

where the shifts took place and in what magnitude.

23. Develop proposals for consideration by the General Assembly and its several committees and commissions which are studying this problem and will be affected by the decision.

See the Recommendations section of this chapter.

Summary

If the legislature chooses to accept the mandate of the constitution, then it appears there are definite limitations upon the type of replacement tax which the legislature may impose. If the replacement tax fails to meet the specifications set forth by these limitations, then the courts may determine that the replacement taxes are unconstitutional.

Generally speaking, the present grant-in-aid formula will replace most of the revenue lost to school districts. The unreplaced portion, 35 million dollars, or 1.21 per cent, will be lost for one of two reasons. If a school district has an operating tax rate higher than the qualifying tax rate, or has assessed valuation per pupil higher than the guaranteed minimum, then the portion of the revenue lost because of these conditions will not be replaced by the present grant-in-aid system. Some school districts, which have large concentrations of personal property assessed valuation, will be severely affected by

the removal of the personal property assessed valuation. Patrons of those school districts must determine their priorities, in terms of education services, and be prepared to assume a greater portion of the financial responsibility for the provision of those services unless the state replaces the revenue on a dollar-for-dollar basis, or enacts a safe-harmless clause. Residents of school districts which have been underassessed in past years will, under House Bill 990, find that a shift has occurred in the percent of total expenditure which is to be borne at the local level.

Although the revenue to be replaced is substantial, approximately 680 million dollars on January 1, 1979, the collection of this revenue for units of local government and school districts is a much more sensitive issue. Because of the limitations upon the type of replacement taxes which the legislature may impose, the taxes must be both broad based and selective. Whether an increase in the present corporate income tax is utilized, or whether new taxes such as a tax on partnerships or value added is utilized is immaterial. What is significant is that the legislature should enact revenue legislation which will meet the limitations of the constitution.

Depending upon the interpretation of the constitution by the courts, the allocation of the replacement

revenue may be easy or extremely difficult. If the courts hold that the revenue may be distributed on a basis which is equitable and approximates the present distribution of the personal property assessed valuation in the state, then any of our several present allocation methods would appear to be adequate. However, if the courts hold that there must be a dollar-for-dollar replacement of lost revenue, then a whole new revenue distribution system may need to be established.

Recommendations

It is recommended that:

1. The legislature through its several committees and commissions continue the study of the effects of Article IX, section 5 (c);
2. Similar studies to this one be done on other portions of the business, municipal, and educational communities to determine the effects that the abolition will have on them;
3. No changes be made to the present constitution until the effects of those proposed changes be carefully analyzed;
4. Any replacement taxes which are imposed be broad based, but that they do not impair Illinois' competitive advantage with other states in attracting and holding business and industry;

5. The present grant-in-aid system to education be continued, with particular emphasis on reducing the permissible variation of expenditures between districts and achieving fiscal neutrality;

6. Legislation be considered which would reduce the regional variations in expenditure per TWADA pupil.

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